Nestor Healthcare Group plc

Directors' report and financial statements

Year ended 31st December 2010
Registered number 1992981

Directors' report and financial statements

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Directors' report

The directors are pleased to present their report and the audited financial statements for the year ended 31st December 2010

Principal activities and business review
Throughout 2010 Nestor Healthcare Group plc was the holding company of a group of companies in the social care and primary care sectors Its principal activities are organised into two business units These comprise

- Social Care - the provision of home and social care personnel and services through a network of branches across the UK, and

- Primary Care - the provision of integrated out-of-hours and walk-in healthcare services, providing advice and treatment to patients, and the provision of forensic medical clinical services to secure establishments and police forces

The Group performed well in 2010, at a level at least in line with directors' expectations Revenues were 2 1 % higher than in 2009, and operating profit before goodwill impairment rose by 24 7% to £12 1m In Social Care, volumes increased steadily through the year despite the evident pressures on Local Authority budgets Whilst pricing has been constrained, the Group's focus on quality and tight control of costs, together with the benefit of additional volume, has enabled our strong operating margins to be maintained In Primary Care profits also rose as compared with 2009 whilst the current level of tender activity remains high Our six recently-opened Equitable Access health centres continue to perform well and be very popular with patients, as do the two practices under the Dental Access Programme which opened in the second half of the year

An impairment of £16 2m has been charged against the carrying value of goodwill associated with the Primary Care business segment, as future projected cash flows for that business have been impacted by the loss of two customer contracts

Summary results for the year were as follows

	2010	2009
Revenue	**£155 2m**	£152 0m
Operating profit before exceptional charges	**£12.1m**	£9 7m
Exceptional charges – impairment of goodwill	**£(16.2m)**	-
Operating (loss)/profit	**£(4 1m)**	£9 7m
Other losses – disposal of operations	-	£(0 3m)
Net finance expense	**£(0.9m)**	£(1 0m)
Fair value loss relating to derivative contracts	**£(0 1m)**	£(1 1m)
(Loss)/profit before tax	**£(5.1m)**	£7 3m
Basic (loss)/earnings per share	**(7.4p)**	5 4p

Segmental results were as follows

	2010		2009	
	Revenue	**Operating profit**	Revenue	Operating profit
Social Care	**£110 6m**	**£13 2m**	£107 0m	£10 3m
Primary Care	**£44 6m**	**£3 2m**	£45 0m	£2 5m
Unallocated corporate expenses	**-**	**£(4 3m)**	-	£(3 1m)
Total before exceptional charges	**£155.2m**	**£12 1m**	£152 0m	£9 7m

Total equity at 31st December 2010 was £61,930,000 (2009 £74,901,000)

Post-balance sheet event – change of ownership

On 6th December 2010 the directors of the Company announced that they had reached agreement with the board of Saga Group Limited ("Saga"), a subsidiary of Acromas Holdings Limited, on the terms of a recommended cash acquisition by Saga of the entire issued and to be issued ordinary share capital of the Company Under the terms of the acquisition, shareholders of the Company would receive 110 pence in cash for each share

Following approval by the Company's shareholders at a Court meeting on 4th January 2011, and also at a further general meeting held later on the same day, the acquisition was completed via a Scheme of Arrangement under Part 26 of the Companies Act 2006 which became effective on 1st February 2011 Since that date the Company has accordingly been a wholly owned subsidiary of Saga, whilst its ultimate holding company is now Acromas Holdings Limited On 3rd February 2011 the Company's ordinary shares were delisted from the London Stock Exchange and it is expected that the Company will shortly be re-registered as a private limited company

Results and dividends

A final dividend for 2009 was declared at 1 65 pence per share, costing £1,862,000 and paid in June 2010 An interim dividend for 2010 was declared at 1 25 pence per share, costing £1,411,000 and paid in October 2010 Finally on 3rd December 2010 directors approved the payment of a second interim dividend of 2 50 pence per share, to be paid on 21st January 2011 to those shareholders on the register on 24th December 2010 Total dividends paid and payable in the year ended 31st December 2010 were therefore 5 40 pence (2009 2 00 pence) per share, costing £6,097,000 (2009 £2,257,000)

Directors

Directors who served during the year were Roger Dye, Martyn Ellis, Sir Andrew Foster and John Rennocks All these directors served throughout 2010

John Ivers was appointed a director of the Company on his promotion to Chief Executive Officer on 1st July 2010

Subsequent to the year-end, and immediately following the acquisition of the Company by Saga Group Limited, John Rennocks, Roger Dye and Sir Andrew Foster all resigned as directors on 1st February 2011

Stuart Howard, a director of both Saga Group Limited and Acromas Holdings Limited, was appointed as a director of the Company on 1st February 2011

In accordance with the Articles of Association, John Ivers and Stuart Howard will both retire by rotation at the Annual General Meeting and, being eligible, will offer themselves for re-election

Directors' interests

The beneficial and family interests of directors in the share capital of the Company during the year ended 31st December 2010 were

	Ordinary shares		Share Option Plan 2002		Performance Share Plan 2006		SAYE Scheme	
	31 12 10	31 12 09	**31 12 10**	31 12 09	**31 12 10**	31 12 09	**31.12.10**	31 12 09
Roger Dye	**150,000**	50,000	**-**	-	**-**	-	**35,665**	-
Martyn Ellis	**47,292**	22,268	**297,943**	262,062	**904,275**	840,153	**20,814**	-
Sir Andrew Foster	**87,957**	50,000	**-**	-	**-**	-	**-**	-
John Rennocks	**437,791**	156,294	**-**	-	**-**	-	**79,361**	79,361
John Ivers	**-**	-	**249,238**	-	**724,419**	-	**46,399**	-

Notes

1 None of the directors had any non-beneficial interest in the Company's share capital

2 No director was materially interested in any contract of significance (apart from contracts of service or for services) with any Group company during or at the end of the financial year

3 John Rennocks bought 81,500 shares at 51 90 pence on 11th March 2010, 90,000 at 53 00 pence on 26th May 2010, 40,000 shares at 58 40 pence on 30th June 2010 and 70,000 shares at 60 00 pence also on 30th June 2010

4 Roger Dye bought 100,000 shares at 52 00 pence on 11th March 2010

5 Sir Andrew Foster bought 37,957 shares at 52 69 pence on 25th May 2010

6 Martyn Ellis bought 25,024 shares at 51 95 pence on 11th March 2010

7 John Ivers was appointed as a director on 1st July 2010 At 31st December 2009, whilst not then a director, he held 151,790 options granted under the Share Option Plan 2002, 546,637 conditional awards granted under the Performance Share Plan 2006, and 46,399 options granted under the SAYE Scheme He did not own any ordinary shares of the Company at either 31st December 2009 or 31st December 2010

Subsequent to the year end, on 1st February 2011, all of the directors' holdings of ordinary shares were acquired by Saga Group Limited In addition, all options granted under the Share Option Plan 2002 and awards granted under the Performance Share plan 2006 vested in full on the same date, all of the new shares thereby issued to the participant directors were then acquired by Saga Group Limited

Share capital

The Company has only one class of capital, namely ordinary shares of 10 pence each All issued shares carry voting rights As at 3rd March 2011 the authorised capital of the Company is £20,000,000 comprising 200,000,000 ordinary shares of 10 pence each At the same date the issued share capital is 118,354,853 ordinary shares of 10 pence each

There are no restrictions on the transfer of shares or any other securities in the Company, no special rights with regard to control of the Company, no restrictions on voting rights, no agreements known to the Company that could result in restrictions on the transfer of securities or on voting rights, no agreements to which the Company is a party that would take effect, alter or terminate upon a change of control of the Company following a takeover bid, and no agreements between the Company and its directors or employees providing for compensation for loss of office or employment as a consequence of a takeover bid

Charitable and political donations

No charitable or political donations were made during the year (2009 £nil)

Financial instruments

Note 23 to the financial statements contains disclosure on financial instruments

Strategy

The business strategy adopted by the directors is to continue to focus on Social Care and Primary Care, and in particular to

- continue to win new contracts with Local Authorities, Primary Care Trusts, Police Authorities and secure institutions, and
- explore opportunities to provide additional services to existing and new customers

Key performance indicators

When monitoring the performance of the Group and of the individual businesses within it, the directors continue to review a number of key performance indicators (KPIs) The more important ones used are

Applicable across the whole Group

Revenue
Operating profit before exceptional charges
Debtor days

Applicable to the Social Care business

Volume – hours
Commission per hour
Gross profit
Gross profit per hour
Average number of care workers paid per week
Average hours per care worker paid per week
Ratio of care worker hours to branch staff hours

Applicable to the Primary Care business

- Doctor pay
- Nurse pay
- Other operating costs
- Cost per doctor hour
- Ratio of doctors to nurses
- Cost per doctor visit and per nurse visit
- Consultations per doctor hour

Actual KPIs at the Group level were as follows

	Year to 31st December 2010	Year to 31st December 2009
Revenue	£155,200,000	£152,000,000
Operating profit before exceptional charges	£12,100,000	£9,700,000
Debtor days	34	38

Principal risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's long-term performance and could cause actual results to differ materially from expected and historical results These are described below Further assurance is provided by a strong control and compliance environment provided by, inter alia, clinical governance and quality assurance departments

Loss of revenue and profits from contracts with Primary Care Trusts or Local Authorities.

A substantial proportion of revenues and profits derive from government funded bodies such as Primary Care Trusts and Local Authorities Whilst the Group expects that such bodies will continue to demand its services, there exists the risk that budget constraints or other cuts in government spending could lead to a reduction in revenues earned Many of these contracts also cover multiple years, exposing the Group to the risk that increases in costs over the period may not be matched by a corresponding increase in revenues The directors believe that such a loss of revenue could in large part be mitigated by reductions in the cost base

Competition

The Group operates in a highly competitive market If competition to the Group increases due to new entrants to the market or to downward price pressures, this may limit the Group's ability to win or renew contracts when tendering and could reduce market share and profit levels This risk is mitigated to some degree by relatively high barriers to entry such as rigorous quality standards, high levels of regulation and the predisposition of the tendering process to be long and costly

Technological innovation:

The advancement of new technologies and the increased uptake of existing technologies into customers' own homes may reduce the demand for the services provided by the Group This risk is mitigated by constant monitoring of and adaptation to such change

Regulatory environment

The Group's activities are subject to a high level of regulation and inspection by various bodies The costs of compliance with these regulations could be impacted by the introduction of new regulations or legislation The Group is also at risk from the negative effects of any non-compliance, which may affect either its profits or reputation or both Inspections by regulators are carried out on a regular basis These risks are mitigated by a rigorous process of internal control over quality and compliance

The need to procure suitably qualified staff:

The Group's performance is in part dependent on its ability to recruit and retain suitably qualified doctors, other medical professionals and care workers and to comply with external regulation in this regard Failure to comply with regulations or to retain the correct quality and quantity of staff may lead to loss of customers, penalties or loss of reputation This risk is mitigated by rigorous checks on new and existing employees, and by continuing to devote significant resources to all recruitment initiatives

Loss of reputation:

The nature of the business is such that from time to time clinical or other incidents can arise which can lead to claims for damages being made against the Group on the grounds of negligence or other reasons Such claims could lead to financial loss in terms of damages, or to loss of reputation In the majority of cases such incidents, having been notified, do not in fact lead to a claim being made Even if claims are made they may be laid against parties other than the Group If claims are ultimately laid against the Group, this risk is mitigated by the maintenance by the Group of appropriate liability insurance, subject to excesses, to cover the financial loss of claims Further mitigation is provided by

rigorous checks on new and existing employees and sub-contractors, and especially by the utilisation of rigorous clinical governance and other operating standards and procedures

Pension schemes' deficits
The Group has two defined benefit pension schemes, into which the Group is obliged to contribute to make good the deficits in these schemes Any necessary increase in employer contributions to the Group's pension schemes to make good the deficits in these schemes may have an adverse impact on the Group's financial condition The risk is being mitigated by adherence to a newly revised schedule of contributions, agreed with the Pensions Regulator during 2010

Provision for costs of onerous leases·
Provision has been made for onerous lease costs taking into account estimates of the length of time properties will be vacant The estimates used in determining the appropriate level of provision represent management's best view of likely market conditions after taking external advice Actual activity may nonetheless differ from these estimates due to the effect of future changes in the property market or subsequent business decisions These differences may have a material impact on the provisions established for these matters The directors try and mitigate this risk by vigorous marketing of the properties with the aim of attracting new sub-tenants

Disabled employees
It is the Group's policy that disabled persons should be considered for employment, training, career development and promotion on the basis of their abilities and aptitudes in common with all employees

The Group applies employment policies that are fair and equitable for all employees and which ensure that entry into and progression within the Group are determined solely by application of job criteria and personal ability and competency
Full and fair consideration (having regard to the person's particular aptitudes and abilities) is given to applications for employment and the career development of disabled persons The Group's training and development policies make it clear that the Group will take all steps practicable to ensure that employees who become disabled during the time they are employed by the Group are able to continue to perform their duties

Employee involvement
The Group attaches considerable importance to ensuring that all its employees are provided with information concerning them as employees, particularly the economic and financial factors affecting the Group's performance and the market in which the Group operates

Diversity
The Group recognises its responsibilities in this key area of working life and is continually taking steps to balance society and employee needs with its business requirements It has a wide and varied employee base with significant numbers of female employees, many at senior management level, as well as a significant employee base of individuals who come from ethnic minority groupings The Group's operational working practices and policies continue to comply with the Disability Discrimination Act 1995 (as amended)

Health and safety
The Board is aware of its responsibilities towards its employees and all users of the Group's services in health and safety matters It recognises its responsibility for the setting and monitoring of appropriate policies, guidelines and practices in the formal Schedule of Matters reserved for the Board's consideration

The Group's Head of Quality is directly accountable to the Board overseeing safety matters and works closely with the Group's business units to roll out revised policies and reporting arrangements Day to day advice is provided by the Group Health and Safety Manager and by an external consultancy An ongoing training programme supports the effective implementation of this process, which is based on a comprehensive series of risk assessments and reporting arrangements During the year all health and safety matters remained integrated into the Nestor Quality Management System

Clinical governance
The Group remains committed to a robust approach to the identification and management of clinical risk with clear, consistent and appropriate reporting across the business Primary Care continues to meet current NHS standards including Standards for Better Health and National Quality Requirements for Out of Hours Services

Primary Care continues to adopt a safe and incremental approach to innovative service development looking to national and international best practice to drive continual improvement in patient services It looks to add to its service development portfolio through engagement with national patient safety

initiatives and patient experience forums In line with its increasingly diverse range of healthcare services, which now include GP practices and urgent care services, our clinical governance systems remain paramount in continually assuring patient safety and satisfaction

Environmental policy
As a service-based organisation, with no manufacturing, limited transportation facilities and no freehold properties, the Group's exposure to environmental risk is limited, as is its ability to control the environmental impact of its activities During the year, the Group continued to refine the formal environmental policy adopted by the Board in 2000, with a particular focus on matters relating to the clinical services provided by the Group The policy document, which is directed at minimising the potential impact of the Group's operations on the environment, provides that the Board retains ultimate responsibility for setting and monitoring its policy on environmental matters

Treasury management and financial instruments
Financial instruments include all assets and liabilities of a financial nature such as cash, loans, finance leases, overdrafts and long term liabilities All such instruments play an important part in the operations of the Group enabling it to operate smoothly and efficiently and to pay its obligations as they fall due They also enable the Group to fulfill its investment strategy including making appropriate acquisitions The Group's objective is to use financial instruments to minimise the cost of capital at an acceptably low financial risk and to maximise flexibility to take advantage of investment and acquisition opportunities as they arise

The Group is a UK business without exposure to foreign exchange risks. The main risks arising from the Group's financial instruments are interest rate and liquidity risks The Board considers each of these risks on a regular basis, the Group's stance towards each of these risks has remained unchanged

Controls
Financial and operational controls remain robust across the Group with considerable attention paid to the control environment and balance sheet management on a monthly basis

Ethical matters
The Board has a formal Code of Business Conduct, covering all the businesses in the Group, which has consolidated all of the various codes previously applicable to them The Code provides comprehensive guidelines to all employees as to the standard of business ethics expected from them as representatives of the Group It also recognises the importance to the Group of operating to the highest possible ethical standards, bearing in mind the nature of the services offered by Group companies and the needs of their clients

The Group operates two comprehensive whistleblowing policies, in respect of clinical issues and general operational and financial matters

Creditor payment policy
It is the Group's policy to have appropriate terms and conditions for transactions with suppliers, ranging from standard terms and conditions to those which have been specifically negotiated, and that in the absence of dispute, payment will be made in accordance with those terms and conditions and conforming to the CBI Code of Best Practice, copies are available from the CBI at Centrepoint, 103 New Oxford Street, London WC1 At 31st December 2010 trade payables represented seven days purchases (2009 nine days)

The directors' reports of the Group's UK operating companies give information about their creditor payment policies as required by the Companies Act The Company, as a holding company, does not itself make any relevant payments in this respect

Secretary
Consequent upon the acquisition of the Company by Saga Group Limited, David Collison resigned as Company Secretary on 1st February 2011 and was replaced by John Davies from the same date

Directors' responsibilities to the auditors regarding the financial statements
Each person who is a director at the date of approval of this directors' report confirms that

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

- each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Approved by the Board on 21st March 2011 and signed on its behalf by

John Davies

John Davies
Company Secretary

Nestor Healthcare Group plc
Registered number 1992981
Registered office Beaconsfield Court, Beaconsfield Road, Hatfield, Hertfordshire, AL10 8HU

Directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss for the Group for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business, and

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

John Ivers
Director

Martyn Ellis
Director

21st March 2011

Independent auditors' report to the shareholders of Nestor Healthcare Group plc

We have audited the financial statements of Nestor Healthcare Group plc for the year ended 31st December 2010 which comprise the Group income statement, the Group statement of comprehensive income, the Group and Company statements of changes in equity, the Group and Company balance sheets, the Group and Company cash flow statements and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Group's and the Company's affairs as at 31st December 2010 and of the Group's loss for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union,
- the Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements, and

Matters on which we are required to report by exception

We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the Company financial statements are not in agreement with the accounting records and returns,

- certain disclosures of directors' remuneration specified by law are not made,
- we have not received all the information and explanations we require for our audit,

BDO LLP

Richard Kelly (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Hatfield
United Kingdom
21st March 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

Group income statement
for the year ended 31st December 2010

	Notes	2010 £000	2009 £000
Revenue	3	155,238	151 989
Cost of sales		(100 962)	(100 479)
Gross profit		54,276	51 510
Administrative expenses		(58,368)	(41 844)
Analysed as			
Administrative expenses excluding goodwill impairment		(42,177)	(41 844)
Goodwill impairment	10	(16,191)	-
Operating (loss)/profit	4	(4,092)	9 666
Analysed as			
Operating profit before goodwill impairment		12,099	9 666
Goodwill impairment	10	(16,191)	
Other losses disposal of operations	16	-	(259)
Finance income	5	31	138
Finance expense	5	(996)	(2 253)
(Loss)/profit before taxation		(5 057)	7 292
Tax expense	6	(3,343)	(1 184)
(Loss)/profit for the year attributable to owners of the Company		(8 400)	6 108
(Loss)/earnings per share			
Basic	9	(7 44p)	5 40p
Diluted	9	(7 31p)	5 38p

Group statement of comprehensive income
for the year ended 31st December 2010

	Notes	2010 £000	2009 £000
(Loss)/profit for the year attributable to owners of the Company		**(8,400)**	6,108
Other comprehensive income			
Actuarial gains/(losses) arising in defined benefit pension schemes	31	**1,207**	(3 118)
Current taxation relating to components of other comprehensive income		**-**	616
Deferred taxation relating to components of other comprehensive income		**(194)**	247
Total comprehensive (expense)/income for the year attributable to owners of the Company		**(7,387)**	3 853

Total comprehensive income/(expense) for the Company was the same as its profit/(loss) in both 2010 and 2009 (see note 7)

Group statement of changes in equity
for the year ended 31st December 2010

	Share capital £000	Share premium account £000	Share payment reserve £000	Other reserves £000	Retained (losses)/ earnings £000	Total equity £000
At 1st January 2009	11 284	71 439	1 387	864	(12 210)	72 764
Total comprehensive income for the year		-	-		3 853	3 853
Dividends payable to equity shareholders		-	-		(2 257)	(2 257)
Issue of shares	1	1			-	2
Increase in share payment reserve		-	539		-	539
At 31st December 2009 and 1st January 2010	11 285	71 440	1 926	864	(10 614)	74 901
Total comprehensive expense for the year		-			(7 387)	(7 387)
Dividends payable to equity shareholders		-			(6 097)	(6 097)
Issue of shares	9	31				40
Increase in share payment reserve		-	473	-	-	473
At 31st December 2010	11 294	71 471	2 399	864	(24 098)	61 930

Company statement of changes in equity
for the year ended 31st December 2010

	Share capital £000	Share premium account £000	Share payment reserve £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1st January 2009	11 284	71,439	1 387	25 750	(16 155)	93 705
Total comprehensive income for the year		-		-	50 256	50 256
Dividends payable to equity shareholders		-		-	(2 257)	(2 257)
Issue of shares	1	1		-		2
Increase in share payment reserve		-	539	-		539
At 31st December 2009 and 1st January 2010	11 285	71 440	1 926	25 750	31 844	142 245
Total comprehensive expense for the year		-	-		(805)	(805)
Transfer		-	-	(25 750)	25 750	
Dividends payable to equity shareholders		-	-		(6 097)	(6 097)
Issue of shares	9	31	-		-	40
Increase in share payment reserve	-		473			473
At 31st December 2010	11 294	71 471	2 399		50 692	135 856

Group and Company balance sheets
as at 31st December 2010

		Group		Company	
		2010	2009	2010	2009
	Notes	£'000	£000	£'000	£000
Non-current assets					
Goodwill	10	78,089	92 803	-	
Other intangible assets	11	-	26	-	
Property plant and equipment	12	2 720	2 540	-	
Deferred tax assets	17	2,741	3 801	-	
Investments	14	-	-	111,661	111 188
Non-current assets		83,550	99 170	111,661	111,188
Current assets					
Trade and other receivables	18	24,508	25 018	37,970	42 954
Cash and cash equivalents	21	119	32	168	1 416
Current assets		24,627	25 050	38,138	44 370
Current liabilities					
Borrowings overdrafts	21	(2,924)	(2 862)	-	-
Derivative financial instruments	22	-	(2 245)	-	(2 245)
Trade and other payables	19	(16,233)	(16 599)	(119)	(68)
Current corporation tax liabilities	19	(1,237)	(331)	-	
Dividend payable	8	(2 824)	-	(2,824)	
Claims in respect of clinical incidents	24	(2,372)	(50)	-	
Employment benefit liabilities	24	(3,313)	(2 430)	-	
Property provisions	24	(1,036)	(806)	-	
Current liabilities		(29,939)	(25 323)	(2,943)	(2 313)
Net current (liabilities)/assets		(5,312)	(273)	35,195	42 057
Total assets less current liabilities		78,238	98 897	146,856	153 245
Non-current liabilities					
Borrowings - loans	21	(11,000)	(11 000)	(11 000)	(11 000)
Claims in respect of clinical incidents	24	(446)	(3 223)	-	-
Employment benefit liabilities	24	(2,587)	(7 209)	-	-
Property provisions	24	(2,275)	(2 564)	-	-
Non-current liabilities		(16,308)	(23 996)	(11,000)	(11 000)
Net assets		61,930	74 901	135,856	142 245
Equity					
Called up share capital	25	11,294	11 285	11,294	11 285
Share premium account	26	71,471	71 440	71 471	71 440
Share payment reserve	26	2,399	1 926	2,399	1 926
Other reserves	26	864	864	-	25 750
Retained (losses)/earnings	26	(24 098)	(10 614)	50 692	31 844
Equity shareholders' funds		61,930	74 901	135,856	142 245

The notes on pages 15 to 39 form an integral part of these financial statements

The financial statements on pages 11 to 39 were approved by the Board and authorised for issue on 21st March 2011

J Ivers

M A Ellis

Nestor Healthcare Group plc
Company registration number 1992981

Group and Company cash flow statements
for the year ended 31st December 2010

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
Operating activities				
Cash generated from operations (note 27)	10,256	8 882	4,631	9 211
Finance charges paid - derivative financial instruments (note 22)	(2,353)	(1 379)	(2 353)	(1 379)
Finance charges paid - other	(528)	(563)	(293)	(177)
Finance income received	31	138	-	-
Income taxes refunded/(paid)	(1,611)	2 171	-	-
Net cash generated from operating activities	5 795	9 249	1 985	7 655
Investing activities				
Purchase of property plant and equipment (note 12)	(1 282)	(1 324)	-	-
Purchase of businesses and subsidiary undertakings (note 15)	(1,255)	(225)	-	-
Disposal of operations (note 16)	-	(259)	-	-
Net cash used in investing activities	(2 537)	(1 808)	-	
Financing activities				
Issue of ordinary share capital (notes 25 and 26)	40	2	40	2
Equity dividends paid to shareholders (note 8)	(3,273)	(2 257)	(3,273)	(2 257)
Decrease in loans from banks	-	(6 000)	-	(6 000)
Increase in bank overdrafts	62	771	-	
Net cash used in financing activities	(3 171)	(7 484)	(3,233)	(8 255)
Net increase/(decrease) in cash and cash equivalents	87	(43)	(1,248)	(600)
Cash and cash equivalents at the beginning of the year	32	75	1,416	2 016
Net increase/(decrease) in cash and cash equivalents	87	(43)	(1,248)	(600)
Cash and cash equivalents at the end of the year	119	32	168	1 416

Notes to the financial statements
for the year ended 31st December 2010

1 Basis of preparation

Both the Group and Company financial statements have been prepared by the directors in accordance with those International Financial Reporting Standards (IFRS) International Accounting Standards (IAS) and Interpretations (SICs and IFRICs) which have been adopted by the European Commission and endorsed for use in the EU (collectively Adopted IFRS") On publishing the Company financial statements here together with the Group financial statements the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes

These financial statements have been prepared under the historical cost convention other than for the valuation of certain financial instruments

The financial statements have been prepared in pounds sterling which is the functional currency of the Group and the Company

The principal accounting policies are set out below

Going concern
The Company was acquired by Saga Group Limited ("Saga") on 1st February 2011 The directors of Saga have since confirmed that they intend to ensure that Saga s subsidiaries are able to meet their obligations to third parties and to other subsidiaries at all times and have further confirmed that they will continue to provide such financial support for a period of at least one year from the date of approval of the Company's financial statements The Company understands that Saga and its ultimate parent Acromas Holdings Limited have and will have for the foreseeable future sufficient funds available to them to be able to honour this intention should the need ever arise

For these reasons the directors continue to adopt the going concern basis in preparing the accounts

Estimates and judgements
The preparation of accounts in accordance with Adopted IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reported period These estimates are based on historical experience and various other assumptions that management and directors believe are reasonable under the circumstances the results of which form the basis for making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources Areas comprising critical judgements that may significantly affect the Group s earnings and financial position are bad debt provisioning valuation of investments and of intangibles including goodwill provisions for pensions income taxes including tax enquiries provisions for onerous lease costs on vacant properties claims arising from clinical incidents and share based payments all of which are discussed in the respective notes

Adoption of new and revised standards
In the current year the Group has adopted IFRS 3 Business Combinations (revised) IAS 27 Consolidated and Separate Financial Statements (revised)
Amendment to IAS 39 "Eligible Hedged Items IFRS 1 First Time Adoption of International Financial Reporting Standards (revised) Amendment to IFRS 1 Additional Exemptions for First Time Adopters
Amendment to IFRS 2 Group Cash settled Share based Payment Transactions Embedded Derivatives (Amendments to IFRIC 9 and IAS 39) IFRIC 16 Hedges of a Net Investment in a Foreign Operation
IFRIC 17 Distributions of Non-Cash Assets to Owners" and IFRIC 18 "Transfers of Assets from Customers

None of these have had a material impact on the results or financial position of the Group

At the year end the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective

Amendment to IFRS 1 Limited Exemption from comparative IFRS 7 Disclosures for First Time Adopters"
Amendments to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First Time Adopters
Amendments to IFRS 7 "Disclosures Transfers of Financial Assets"
IFRS 9 Financial Instruments
Amendments to IAS 12 "Deferred Tax Recovery of Underlying Assets
IAS 24 Related Party Disclosures (revised)
Amendment to IAS 32 Classification of Rights Issues
Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement"
IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments

The directors review newly issued standards and interpretations in order to assess the impact on the financial statements of the Group in future periods

2 Accounting policies

Basis of consolidation
The accounting reference date of the Group comprising the Company and all its trading subsidiary undertakings is 31st December These financial statements are accordingly presented for the year to 31st December 2010

Subsidiaries are those companies controlled directly or indirectly by Nestor Healthcare Group plc Control exists where the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities

The results of businesses acquired are included from the effective date of acquisition and businesses sold are included up to the effective date of disposal The effective date of acquisition or disposal is considered to be the date when control passes Acquisitions have been accounted for using the purchase method of accounting

Where necessary adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Group

All intra-group transactions balances income and expenses are eliminated on consolidation

Business combinations
The acquisition of subsidiaries is accounted for using the purchase method The cost of the acquisition is measured at the aggregate of the fair values at the date of exchange of assets given liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree The acquiree's identifiable assets liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date

Notes to the financial statements
for the year ended 31st December 2010

2 Accounting policies continued

Revenue
Revenue is measured at the fair value of the consideration received and receivable and represents amounts receivable for services provided in the normal course of business net of discounts VAT and other sales related taxes Revenue is recognised when services are supplied to external customers against orders received In the Social Care business segment the point of supply is generally defined as the point at which a service user has received care services from the Group which are usually provided on a daily basis In the Primary Care business segment, revenue is recognised either on the delivery of specific services or for capacity related contracts on a time elapsed basis as the principal contractual obligation is to provide an agreed level of capacity over a fixed term There is generally no obligation under these contracts to carry forward non utilised capacity

In the current year the Group has entered into further contracts generally with Primary Care Trusts for the operation of walk in health centres Under the terms of these contracts patterns of billing for services rendered and associated cash collection are not always consistent with the timing of provision of these services In the case of these contracts revenue is recognised over the life of the contract in line with the pattern of provision of the associated services

Finance income and expense
Borrowing costs are recognised in the income statement in the period in which they are incurred

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable which is the rate that exactly discounts estimated future cash receipts through the expected life of the asset's net carrying amount Dividend income from investments is recognised when shareholders' rights to receive payment have been established

Leases
Payments under operating lease arrangements are charged to the income statement on a straight line basis

Corporation tax
The amount included in the income statement is based on pre tax reported profit or loss and is calculated taking into account temporary differences and the likelihood of realisation of deferred tax assets and liabilities The Group s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date

Deferred taxation
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised Such assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit

Deferred tax is provided using rates of tax that have been enacted or substantively enacted by the balance sheet date Deferred tax assets and liabilities are not discounted

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised Deferred tax is charged or credited in the income statement except when it relates to items charged or credited directly to equity

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and when the Group intends to settle its current tax assets and liabilities on a net basis

Goodwill
Where the cost of acquisition exceeds the fair values attributable to the net assets acquired the resulting goodwill is capitalised Goodwill is tested for impairment annually and also when indicators suggest that the carrying value may not be recoverable Goodwill is carried at cost less amortisation charged prior to the Group s transition to IFRS on 1st January 2004 less accumulated impairment losses Any impairment is recognised in the period in which it is identified

Group goodwill derives from the acquisition of businesses and subsidiary undertakings in 2010 2007 and prior years The directors have specifically evaluated the carrying values of goodwill for each such acquisition The recoverable amount of goodwill in each cash generating unit is determined based on value in use calculations These calculations require the use of estimates for cash flow projections based on financial budgets approved by management extrapolated using estimated growth rates which do not exceed the long term average growth rate for the businesses in which the unit operates Key assumptions used for value in-use calculations are budgeted operating profit depreciation and capital expenditure working capital requirements growing in line with the nominal annual growth rates assumed beyond the budgeted period and using a pre tax discount rate

Prior to the adoption of IFRS goodwill was amortised over a period not exceeding 20 years Following the adoption of IFRS goodwill is not amortised Prior to 1st January 1998 purchased goodwill was written off to reserves on acquisition Under IFRS 1 such goodwill is not recognised on transition to IFRS nor is the goodwill transferred to the income statement on disposal of the investment or if the investment becomes impaired

Other intangible assets
Other intangible assets represent the capitalised value of customer contracts Such contracts are capitalised at fair value and amortised over a period equal to the remaining life of each contract The carrying value is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable Such impairments and amortisation are charged to administrative expenses

Property plant and equipment
Property plant and equipment are stated at cost less accumulated depreciation and impairment Depreciation is calculated so as to write down the cost of these assets to their estimated residual value in equal instalments over their estimated useful lives The ranges of estimated useful lives for each major asset category which are reviewed annually are

Plant and equipment fixtures and fittings (including computer equipment)	3 to 8 years

The carrying value is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable

Notes to the financial statements
for the year ended 31st December 2010

2 Accounting policies continued

Investments
Investments in subsidiary undertakings are held at original cost less any provision for impairment

Impairment
At each balance sheet date the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss if any Where the asset does not generate cash flows that are independent from other assets the Group estimates the recoverable amount of the cash generating unit to which the asset belongs

Recoverable amount is the higher of fair value less costs to sell and value in use In assessing value in use the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount the carrying amount of the asset or cash generating unit is reduced to its recoverable amount An impairment loss is recognised as an expense immediately

Retirement benefits
The costs of providing pensions under defined benefit schemes are calculated using the projected unit credit method and spread over the period during which benefit is expected to be derived from the employee's services in accordance with the advice of qualified actuaries Pension obligations are measured at the present value of estimated future cash flows discounted at rates reflecting the yields of high quality corporate bonds Pension scheme assets are measured at fair value at the balance sheet date Actuarial gains and losses differences between the expected and actual returns and the effects of changes in actuarial assumptions are recognised in the statement of comprehensive income in the year they arise

The Group s contributions to defined contribution schemes are charged to the income statement as incurred

Provisions and contingent liabilities
Provisions are recognised when the Group has a legal or constructive obligation as a result of a past event where the amount of the obligation can be reliably estimated and it is probable that the Group will be required to settle the obligation If the effect of the time value of money is material provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted Where discounting is used the increase in the provision due to the passage of time is recognised as a finance expense Where appropriate future legal costs arising from the past event giving rise to the obligation are included in this provision

Where the Group has a possible obligation as a result of a past event that may but probably will not result in an outflow of economic benefits no provision is made Disclosures are made of the contingent liability including where practicable an estimate of the financial effect uncertainties relating to the amount or timing of the outflow of resources and the possibility of any reimbursement

Cash and cash equivalents
Cash and cash equivalents comprise balances at banks that are not capable of being offset against overdrafts or other bank borrowings under group overdraft arrangements together with balances of cash in hand

Share-based payments
IFRS 2 has been applied to all grants of equity instruments after 7th November 2002 in accordance with the provisions of the standard The Group issues equity settled share based payments to certain employees under the terms of various employee share and share option schemes including long term incentive plans and Save As You Earn share option schemes Equity settled share based payments are measured at fair value at the date of grant The fair value so determined at the grant date is expensed on a straight line basis over the vesting period based on an estimate of the shares that will ultimately vest and adjusted for the effect of non-market based vesting conditions Fair value has been measured using a stochastic simulation modelling valuation method

The fair values of awards granted prior to 7th November 2002 have not been charged to income

The liability to the Company in respect of these shares is accounted for as a capital contribution made to subsidiary companies by the Company and as such is recognised as an increase in investments in the balance sheet of the Company

Financial instruments
Financial assets and financial liabilities are recognised in the Group s balance sheet when the Group becomes a party to the contractual provisions of the instrument

Financial assets are classified as either financial assets at fair value through profit or loss (FVTPL) or loans and receivables The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition

Financial assets are classified as FVTPL where the financial asset is held for trading or is designated as FVTPL. A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling in the near future or it is a derivative that is not designated and effective as a hedging instrument Financial assets at FVTPL are stated at fair value with any resultant gain or loss recognised in finance income or expense in the income statement The net gain or loss recognised in the income statement incorporates any interest earned on the financial asset

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables Loans and receivables are measured at amortised cost using the effective interest method less any impairment Interest income is recognised by applying the effective interest rate except for short term receivables when the recognition of interest would be immaterial

Financial assets other than FVTPL, are assessed for indicators of impairment at each balance sheet date Financial assets are impaired when there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows have been impacted

Notes to the financial statements
for the year ended 31st December 2010

2 Accounting policies continued

Financial instruments continued
The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account When a trade receivable is considered uncollectable it is written off against the allowance account Subsequent recoveries of amounts previously written off are credited against the allowance account Changes in the carrying amount of the allowance account are recorded in the income statement within administration expenses If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised the previously recognised impairment loss is reversed through the income statement to the extent that the carrying amount at the date of impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised

The Group has not classified any of its financial assets as held to maturity or available for sale

Financial liabilities are classified according to the substance of the contractual arrangements entered into Financial liabilities are classified as either financial liabilities "at FVTPL" or other financial liabilities

Financial liabilities are classified as FVTPL where the financial liability is held for trading A financial liability is classified as held for trading if it has been incurred principally for the purpose of disposal in the near future or it is a derivative that is not designated and effective as a hedging instrument Financial liabilities at FVTPL are stated at fair value with any resultant gain or loss recognised in finance income or expense in the income statement The net gain or loss recognised in the income statement incorporates any interest paid on the financial liability

The Group has entered into interest rate derivative contracts to hedge its exposure to changes in interest rates (note 22) These derivative financial instruments are initially recognised at fair value at the date each contract is entered into and are subsequently remeasured to their fair value at each balance sheet date The resulting gain or loss is recognised in finance income or expense in the income statement immediately The fair value of these interest rate derivatives is obtained using quotations supplied by the counterparty banks These contracts expired during 2010 and accordingly carry no fair value as at 31st December 2010

Other than the interest rate derivatives noted above the Group has not designated any other financial asset or liability as being FVTPL

Other financial liabilities including borrowings are initially measured at fair value net of transaction costs Other financial liabilities are subsequently measured at amortised cost using the effective interest method The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or where appropriate a shorter period

Unless otherwise indicated the carrying amounts of both financial assets and financial liabilities held by the Group are reasonable approximations of their respective fair values (note 23)

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability The Company's ordinary shares in issue are classified as equity instruments For the purposes of the disclosures given in note 23 the Group considers its capital to consist of ordinary share capital share premium reserve share payment reserve other reserves and retained earnings

3 Segmental reporting

In accordance with IFRS 8 the Group s results have been analysed between the two reportable segments Social Care and Primary Care The types of services from which each reportable segment derives its revenues are discussed within the directors report

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are reviewed regularly by the chief operating decision makers in order to allocate resources to the segment and to assess its performance Reportable segment profit represents operating profit earned by each segment Corporate expenses have been allocated to operating segments on a specific basis where possible Where not possible no allocation has been made Categories of expense which in accordance with this policy have not been allocated include those regarded as core head office costs such as costs of the Board of directors central finance and treasury operations and the costs entailed in operating as a publicly quoted company There is no difference in the basis of accounting for intersegment transactions and external transactions

The operational analysis of revenue and operating profit which is consistent with the measures reported to the chief operating decision makers is as follows

	2010 £000	2009 £000
Reportable external revenue by operating segment		
Social Care	110 598	107 030
Primary Care	44 640	44 959
Total Group external revenue	155,238	151 989

	2010 £000	2009 £000
Intersegment revenue		
Social Care	100	98
Primary Care	1,205	751
Total Group intersegment revenue	1 305	849

	2010 £000	2009 £000
Reportable profit by operating segment before goodwill impairment		
Social Care	13 199	10 295
Primary Care	3 217	2 439
Total profit for reportable operating segments before goodwill impairment	16,416	12 734

No further analysis of revenues or profits below the level of the two operating segments Social Care and Primary Care has been carried out as in the opinion of the directors to do so would incur unjustifiable cost as such information is not currently available

Notes to the financial statements
for the year ended 31st December 2010

3 Segmental reporting continued

	2010 £000	2009 £000
Profit for the year		
Total profit for reportable operating segments	16 416	12 734
Goodwill impairment to the Primary Care segment	(16 191)	
Unallocated corporate expenses	(4,317)	(3 068)
Group operating (loss)/profit	(4 092)	9 666
Other losses disposal of operations	-	(259)
Finance income	31	138
Finance expense	(996)	(2 253)
(Loss)/profit before taxation	(5 057)	7 292
Tax expense	(3 343)	(1,184)
(Loss)/profit for the year	(8,400)	6 108

	2010 £000	2009 £000
Reportable segment assets		
Social Care	65 527	65 951
Primary Care	39 174	53 391
Total assets for reportable segments	104,701	119 342

	2010 £000	2009 £000
Assets		
Total assets for reportable segments	104 701	119 342
Unallocated corporate assets	3,476	4 878
Total Group assets	108,177	124 220

Total Group assets comprise total non current assets together with total current assets

	2010 £000	2009 £000
Reportable segment liabilities		
Social Care	8 826	9 242
Primary Care	6 057	6 245
Total liabilities for reportable segments	14 883	15 487

	2010 £000	2009 £000
Liabilities		
Total liabilities for reportable segments	14 883	15 487
Unallocated corporate liabilities	17,440	19 970
Total Group liabilities	32,323	35 457

Total Group liabilities comprise total non current liabilities together with total current liabilities excluding all borrowings

	Goodwill impairment 2010 £000	Capital expenditure 2010 £000	Depreciation 2010 £000	Amortisation of intangibles 2010 £000
Analysis of other segment items - 2010				
Social Care		370	303	26
Primary Care	16 191	909	780	
Total for reportable segments	16 191	1 279	1 083	26
Unallocated corporate items		3	21	
Total	16 191	1 282	1 104	26

	Goodwill impairment 2009 £000	Capital expenditure 2009 £000	Depreciation 2009 £000	Amortisation of intangibles 2009 £000
Analysis of other segment items - 2009				
Social Care		144	304	85
Primary Care		1 175	657	
Total for reportable segments		1 319	961	85
Unallocated corporate items		5	272	
Total		1,324	1 233	85

Notes to the financial statements
for the year ended 31st December 2010

4 Operating profit

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Operating profit is stated after charging/(crediting)				
Employee costs (excluding share based payments charge) (note 29)	109 374	108 529		
Impairment of goodwill	16 191			
Share based payment charge (note 29)	473	539		
Amortisation of intangible assets	26	85		
Depreciation of property plant and equipment	1 104	1 233		
Loss on sale of property plant and equipment	22			
Loss on disposal of business	-	259		
Operating lease rentals				
Land and buildings	2 024	2 210		
Plant and machinery	1 224	1 026		

Remuneration of the Company's auditors in respect of audit and all other services was as shown below

	2010 £000	2009 £000
Fees payable for the audit of the annual accounts of the Group and Company	144	142
Fees payable for other services		
The audit of the Company's subsidiaries pursuant to legislation	20	20
Fees payable for other services	20	20
Total fees payable to the Company's auditors	164	162

Auditors remuneration relating to the statutory audit of the Company of £8 500 (2009 £8 500) was borne by another Group company

5 Finance income and expense

	2010 £000	2009 £000
Finance income		
Other interest receivable	31	138
Total finance income	31	138

	2010 £000	2009 £000
Finance expense		
Unwinding of discount in property provisions	(245)	(259)
Net finance charge on defined benefit pension schemes (note 31)	(73)	(376)
Interest payable on bank loans and overdrafts	(570)	(546)
Fair value loss relating to interest rate derivative contracts	(108)	(1 072)
Total finance expense	(996)	(2 253)

6 Taxation

	2010 £000	2009 £000
UK corporation tax charge on taxable profit for the year	(2 542)	(1 912)
Over provision in previous years current tax	60	932
Current tax charge	(2,482)	(980)
Deferred tax charge for the year	(679)	(407)
(Under)/over provision in previous years deferred tax	(48)	203
Adjustment for change in rate deferred tax	(134)	
Deferred tax charge	(861)	(204)
Tax expense for the year	(3,343)	(1 184)

Deferred tax has been calculated at a rate of 27 0% this being the UK rate of corporation tax that will apply from 1st April 2011 (2009 28%)

The effective tax rate for the year is higher than the average standard rate (28% (2009 28%)) of corporation tax for the UK
The differences are explained below

	2010 £000	2009 £000
Loss/(profit) at the average standard rate of corporation tax at 28% (2009 28%)	1 416	(2 042)
Impairment of goodwill not deductible	(4 533)	
Other items not deductible	(104)	(277)
Adjustment for change in rate deferred tax	(134)	
Over provision in previous years current tax	60	932
(Under)/over provision in previous years deferred tax	(48)	203
Tax expense for the year	(3 343)	(1 184)

Notes to the financial statements
for the year ended 31st December 2010

7 Loss for the year

The loss after tax for the year dealt with in the accounts of the Company amounts to £805 000 (2009 profit of £50 256 000) This loss is stated after an impairment charge of £nil (2009 £28 000 000) in respect of investments in subsidiary companies (note 14)

As allowed by the provisions of Section 408 of the Companies Act 2006 the Company has not published its own income statement

8 Dividends

	2010 £000	2009 £000
Equity dividends payable		
Ordinary shares final dividend paid for the previous year 1 65p per 10p share (2009 1 50p)	1,862	1 693
Ordinary shares interim dividend paid for the current year 1 25p per 10p share (2009 0 50p)	1,411	564
	3,273	2 257
Ordinary shares second interim dividend declared (paid after the year end) for the current year 2 50p per 10p share (2009 nil)	2 824	
Total dividends payable on equity shares 5 40p per 10p share (2009 2 00p per 10p share)	6 097	2 257

The second interim dividend for the year ending 31st December 2010 of 2 50p per 10p share (cost £2 823 532) was approved by directors on 3rd December 2010 and was paid on 21st January 2011 to shareholders who were on the register at 24th December 2010

9 Earnings per share

Basic earnings per 10p share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year

For diluted earnings per share the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares The Group has only one category of potentially dilutive ordinary shares those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year In the year to 31st December 2010 the only such options were 746,398 options granted in April 2009 and 615 988 options granted in April 2010 all under the Share Option Plan 2002 plus 215 181 options granted in June 2008 1 423 422 options granted in April 2009 and 647 054 options granted in April 2010 all under the Savings Related Share Option Scheme

	2010 Loss £000	2010 Weighted average number of 10p shares thousand	2010 Loss per share pence	2009 Earnings £000	2009 Weighted average number of 10p shares thousand	2009 Earnings per share pence
(Loss)/earnings per share	(8 400)	112 858	(7 44)	6 108	112 845	5 40p
Dilutive effect of options		1 975	0 13		768	(0 02p)
Diluted (loss)/earnings per share	(8,400)	114 833	(7 31)	6 108	113 613	5 38p

The total number of share options outstanding at the end of the year was 3 725 237 (2009 2 807 416) Of these 77 194 were not potentially dilutive in the year to 31st December 2010 (2009 480 842)

10 Intangible assets - goodwill

	2010 £000
Cost	
At 1st January 2010	160 898
Additions	1 377
Adjustment re prior year	100
At 31st December 2010	162 375
Aggregate amortisation	
At 1st January 2010	68 095
Impairments	16 191
At 31st December 2010	84 286
Net book value	
At 31st December 2010	78 089

	2009 £000
Cost	
At 1st January 2009	160 893
Additions	5
At 31st December 2009	160 898
Aggregate amortisation	
At 1st January 2009	68 095
At 31st December 2009	68 095
Net book value	
At 31st December 2009	92 803

Group goodwill derives from the acquisition of businesses and subsidiary undertakings in 2010 2007 and prior years The directors consider that goodwill represents value to the Group for which the recognition of a discrete intangible asset is neither permitted nor appropriate Such value primarily comprises future economic benefits including additional revenues and operating synergies that it is anticipated may be derived from the business together with the fair value of the workforce in place at the date of acquisition

Notes to the financial statements
for the year ended 31st December 2010

10 Intangible assets - goodwill continued

The carrying amounts of goodwill by business segment are as follows

	2010 £000	2009 £000
Goodwill by business segment		
Social Care	48 378	46 901
Primary Care	29 711	45 902
Total	78 089	92 803

Goodwill is allocated to cash-generating units (CGUs) as follows

	2010 £000	2009 £000
Goodwill by CGU		
Goldsborough/Medico	43 738	42 261
Country Cousins	1,278	1 278
Patricia White s	3,362	3 362
Social Care	48 378	46 901
Primary Care	29 711	45 902
Total	78 089	92 803

The directors have specifically evaluated the carrying values of goodwill The recoverable amount of goodwill in each cash-generating unit is determined based on value in use calculations These calculations require the use of estimates for cash flow projections based on two year (2009 one year) financial forecasts approved by management extrapolated to ten years using estimated growth rates which do not exceed the long term average growth rate for the businesses in which the unit operates before applying a terminal value to these annual cash flows based on a small multiple of year ten cashflows
Key assumptions used for value in use calculations are budgeted operating profit depreciation and capital expenditure together with working capital (generally receivables less payables) requirements growing in line with nominal assumed growth rates beyond the budgeted period and a pre tax discount rate based on the Group s weighted average cost of capital Management have concluded that it is appropriate to apply the same weighted average cost of capital across all CGUs Operating profits have been based on past experience and future expectations in the light of anticipated market and economic conditions

The assumptions applicable to each CGU are detailed below

	2010 Pre-tax discount rate %	2010 Growth rate %	2009 Pre tax discount rate %	2009 Growth rate %
Goldsborough/Medico	9 90%	4 50%	10 90%	4 50%
Country Cousins	9 90%	4 50%	10 90%	4 50%
Patricia White s	9 90%	4 50%	10 90%	4 50%
Primary Care	9 90%	4 50%	10 90%	4 50%

The major factors behind the decrease in the pre tax discount rate from the previous year are a reduction in equity beta a reduction in the risk free interest rate and a reduction in the market equity risk premium only partly offset by an increase in the ratio of equity to debt in the Group s balance sheet

Having evaluated the carrying values of goodwill the directors have concluded that no impairment of goodwill is needed in the year for any cash generating unit within the Social Care business segment However they have also concluded that an impairment of £16 191 000 (2009 £nil) to the goodwill within the Primary Care business segment (which forms a single cash-generating unit) is required and this has been charged to administrative expenses The need for this impairment has arisen as the forecast for short term cash flows has worsened compared to that evaluated one year earlier following (in particular) the loss of two contracts

The recoverable amount for the Primary Care cash generating unit within the Primary Care segment is lower than its carrying value by £16 191 000 (2009 higher by £4 700 000)

In respect of the Primary Care cash flow projections a decrease of 1% in the assumed annual growth rate would cause the value in use to be lower than the carrying value of goodwill by £17 471 000 whilst a decrease of 2% would cause the value in use to be lower than the carrying value of goodwill by £18 684 000 Further an increase in the discount rate applied of 1% would cause the value in use to be lower than the carrying value of goodwill by £17 940 000 with a increase of 2% causing the value-in use to be lower than its carrying value by £19 555 000

If in respect of the Primary Care CGU the assumed growth rate rose by 11 7 percentage points to 16 2% or the discount rate fell by 6 6% percentage points to 3 3% the carrying value of goodwill and the value in use would be the same

In respect of the Social Care CGUs the directors have concluded that there are no reasonably possible changes in key assumptions which would cause the carrying value of goodwill to exceed its value in use

11 Other intangible assets

	2010 £000
Cost	
At 1st January 2010 and 31st December 2010	1 925
Aggregate amortisation	
At 1st January 2010	1 899
Charge for the year	26
At 31st December 2010	1 925
Net book value	
At 31st December 2010	

Notes to the financial statements
for the year ended 31st December 2010

11 Other intangible assets continued

	2009 £000
Cost	
At 1st January 2009 and 31st December 2009	1 925
Aggregate amortisation	
At 1st January 2009	1 814
Charge for the year	85
At 31st December 2009	1 899
Net book value	
At 31st December 2009	26

Other intangible assets represent the capitalised value of customer contracts acquired via business combinations (acquisitions of businesses and subsidiary undertakings) made since 1st January 2004 Such contracts are capitalised at fair value and amortised over a period equal to the remaining life of each contract Contract lives so amortised varied between one year and five years All were within the Social Care business segment at both 31st December 2010 and 31st December 2009

All of the other intangible assets were owned by subsidiary undertakings of the Company at both 31st December 2010 and 31st December 2009

The Group carries out reviews of its intangible assets on an annual basis to determine whether events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable If any such indication exists the recoverable amount of the asset is estimated as either the higher of the net selling price or value-in-use the resultant loss (the difference between the carrying amount and the recoverable amount) is recorded as a charge to the consolidated income statement The value in-use is calculated as the present value of the estimated future cash flows expected to result from the use of assets in the business being evaluated In order to determine the present value of estimated future cash flows the Group uses a discount rate of 9 9% (2009 10 9%) based on its estimated weighted cost of capital together with any risk premium as appropriate Estimated future cash flows used in the impairment calculations represent management s best view of likely market conditions including selling prices volumes and employment costs Actual cash flows may differ significantly from these estimates due to the effect of changes in market conditions or to subsequent decisions on the activities of the business These differences may have a material impact on the asset values impairments and amortisation expense reported in future periods

12 Property, plant and equipment

Group	2010 £000
Cost	
At 1st January 2010	13 516
Additions	1 282
Cost of assets in acquired businesses	64
Disposals	(6 064)
At 31st December 2010	8 798
Depreciation	
At 1st January 2010	10 976
Charge for the year	1 104
Accumulated depreciation of assets in acquired businesses	40
Eliminated on disposals	(6 042)
At 31st December 2010	6 078
Net book value	
At 31st December 2010	2 720

Group	2009 £000
Cost	
At 1st January 2009	14 032
Additions	1 324
Disposals	(1 840)
At 31st December 2009	13 516
Depreciation	
At 1st January 2009	11 583
Charge for the year	1 233
Eliminated on disposals	(1 840)
At 31st December 2009	10 976
Net book value	
At 31st December 2009	2 540

Additions under construction at 31st December 2010 amounted to £336 000 (2009 £nil)

13 Commitments

	2010 £000	2009 £000
Capital expenditure that has been contracted but not provided for	602	

The Company has made commitments to The Pensions Regulator to make cash payments into both defined benefit pension schemes Cash payments of £2 123 000 will be paid each year up to and including 2016 into the Nestor Healthcare Group Retirement Benefits Scheme whilst cash payments of £1 156 000 will be paid each year up to and including 2016 into the Healthcall Group Limited Pension Scheme Both commitments were made following finalisation of the actuarial valuations carried out in 2009 These commitments are intended to ensure that the funding deficits on both schemes will be eliminated by no later than 2016

Notes to the financial statements
for the year ended 31st December 2010

14 Investments

	Investment in subsidiaries 2010 £000
Company	
At 1st January 2010	111 188
Capital contributions for share based payments	473
At 31st December 2010	111 661

The directors carry out reviews of the investments on an annual basis to consider whether events or changes in circumstances indicate that the carrying amount may not be recoverable If any such indication exists the recoverable amount of the investments is estimated as the higher of either the net selling price or value in-use the resultant loss (the difference between the carrying amount and the recoverable amount) would be recorded as a charge to the consolidated income statement

Having evaluated the carrying value of the investments in this way the directors have concluded that there is no indication that it may not be recoverable The directors believe that this view is supported by consideration of the fair value less costs to sell this value being derived from the consideration for the issued shares of the Group payable by Saga Group Limited in February 2011

	Investment in subsidiaries 2009 £000
Company	
At 1st January 2009	138 649
Impairment	(28 000)
Capital contributions for share based payments	539
At 31st December 2009	111 188

Except where stated the following subsidiary companies are wholly owned including 100% voting rights operate in the UK and are registered in England and Wales All companies have been included in the consolidated results of the Group

Principal undertakings

Undertaking	Business
Nestor Primecare Services Limited[1]	UK healthcare services in primary and social care
Helenus Limited	Intermediate holding company

[1] The interest of Nestor Healthcare Group plc is held through intermediate holding companies

The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length A full list of subsidiary undertakings is available at the Company's registered office

Related party transactions

Group

Transactions between the Company and its subsidiaries which are related parties have been eliminated on consolidation and are not disclosed in this note The Group had no material transactions with other related parties during the year

Details of any transactions with directors are set out in note 30 as is compensation of directors and key management During the year there were no other material transactions or balances between the Group and its key management personnel or members of their close families

Company

The Company receives dividends from and recharges certain costs to subsidiary undertakings in the normal course of business Dividend income received in the year amounted to £nil (2009 £80 000 000 of which £37 000 000 has been treated as qualifying consideration) Amounts recharged to subsidiaries amounted to £113 000 (2009 £99 000) Amounts outstanding at 31st December 2010 and 31st December 2009 between the Company and subsidiary undertakings are disclosed in notes 18 and 19

15 Purchase of businesses and subsidiaries

One company and one unincorporated business were acquired in the year to 31st December 2010 Both were in the Social Care business segment

The provisional fair values of assets and liabilities acquired in the year and the goodwill arising are outlined in the table below All values of assets liabilities and goodwill arising on the 2010 acquisitions will be finalised in the 2011 financial statements when detailed reviews of businesses acquired are completed The payment of deferred consideration is not dependent on future performance of the businesses acquired

No purchases of companies or businesses were made in 2009 During that year deferred consideration of £225 000 was paid in respect of an acquisition made in 2007

15 Purchase of businesses and subsidiaries continued

	2010 Acquisitions £000	2010 Fair value adjustments £000	2010 Total £000
Property plant and equipment	29	(5)	24
Non-current assets	29	(5)	24
Current assets and liabilities			
Receivables and prepayments	30		30
Payables and accruals	(66)	(20)	(86)
Cash	77		77
Net current liabilities	41	(20)	21
Provisions	(5)		(5)
Net assets acquired	65	(25)	40
Purchase consideration cash	1 417		1 417
Total cost	1 417		1 417
Total goodwill arising in the period (note 10)	1 352	25	1 377

A fair value adjustment of £20 000 has been made to account for an accrual for repairs in respect of acquired property
A further fair value adjustment of £5 000 has been made to account for differences in capitalisation and depreciation policy
With these exceptions the fair value and book value of all other assets and liabilities acquired were materially the same

Cash flows in respect of purchase of businesses	Total £000
2010 acquisitions	
Total consideration cash	1 417
Less deferred consideration accrued not yet paid	(85)
	1 332
Less cash acquired	(77)
Total net cash flows in respect of purchase of businesses	1,255

Acquisitions contributed £133 000 (2009 £nil) to revenue and £33 000 (2009 £nil) to operating profit in the year If these acquisitions had been completed on the first day of the year Group revenue would have been higher by £1 408 000 and Group profit attributable to equity holders of the Company would have been higher by £395 000

16 Disposals

No disposals of subsidiary undertakings or other businesses were made in 2010 (2009 none) nor were there any cash flows associated with disposals made in prior years (2009 £259 000 outflow charged to the income statement)

17 Deferred tax assets

	2010 £000	2009 £000
Pension liability (note 31)	1 593	2 700
Accelerated capital allowances	891	1 061
Intangible assets	(178)	(139)
Share based payments	189	12
Other	246	167
Total recognised deferred tax assets	2,741	3 801

The Group also has unprovided potentially recognisable deferred tax assets of £68 000 (2009 £117 000) in relation to trading losses of £252 000 (2009 £418 000) which are currently not expected to reverse In addition the Group has unprovided potentially recognisable deferred tax assets of £7 234 000 (2009 £7 550 000) in respect of capital losses amounting to £26 793 000 (2009 £26 964 000) All other potentially recognisable tax assets have been recognised and included within non current assets

There were no deferred tax assets of the Company at either 31st December 2010 or 31st December 2009

18 Trade and other receivables

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
Trade receivables				
Gross	11,270	14 163	-	
Allowance for doubtful debts	(291)	(482)	-	
Amounts owed by Group companies			37 546	42 802
Accrued income and other receivables	11 018	9 358	-	113
Prepayments	2 511	1 979	424	39
Trade and other receivables due within one year	24 508	25 018	37 970	42 954

	2010	2009
	£000	£000
Movement in the allowance for doubtful debts		
Balance at the beginning of the year	482	293
Impairment losses recognised net of recoveries	256	625
Amounts written off as uncollectable	(447)	(436)
Balance at the end of the year	291	482

Concentrations of credit risk with respect to trade receivables are limited due to the Group s customer base being large and unrelated Accordingly management believe that there is no further credit risk provision required in excess of normal provision for doubtful receivables All receivables are due from customers resident in and trading in the UK. The net of the gross value of trade receivables and any related provision represents the carrying value which is equal to fair value

Included in the Group s trade receivables balance are receivables with a carrying value of £3 234 000 (2009 £4 415 000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable The Group does not hold any collateral over these balances The average age of these receivables is 80 days (2009 75 days)

	2010	2009
	£000	£000
Ageing of past due receivables		
0-30 days	1 587	3 035
30 60 days	896	366
60 90 days	184	271
More than 90 days	567	743
Total	3,234	4 415

	2010	2009
	£000	£000
Ageing of impaired receivables		
Not yet past due	145	122
0-30 days past due	64	235
30-60 days past due	4	102
60-90 days past due	55	92
More than 90 days past due	262	799
Total	530	1 350

Included within accrued income and other receivables is an amount of £480 000 (2009 £nil) due from a customer in respect of assets which are the subject of an asset financing agreement taking the form of a finance lease In view of the short timeframe over which the lease is expected to be repaid the directors consider that there is no material difference between the gross investment and the present value of the minimum lease payments receivable at the balance sheet date

19 Current liabilities - falling due within one year

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
Bank overdrafts (note 21)	2 924	2 862		
Derivative financial instruments		2 245		2 245
Trade payables	1 899	2 399	37	
Other payables	3,409	2 821	-	
Dividend payable	2 824		2 824	
Deferred consideration for acquisitions	85			
Accruals and deferred income	8 001	8 818	82	68
Corporation tax	1 237	331	-	
Other UK tax and social security	2 839	2 561		
Claims in respect of clinical incidents (note 24)	2 372	50	-	
Employment benefit liabilities (note 24)	3 313	2 430	-	
Property provisions (note 24)	1 036	806	-	
Total current liabilities	29,939	25 323	2 943	2 313

Of the deferred consideration for acquisitions £nil (2009 £nil) is contingent upon future profitability of the acquired businesses

Notes to the financial statements
for the year ended 31st December 2010

20 Non-current liabilities - amounts falling due after more than one year

	Group 2010 £000	Group 2009 £000	Company 2010 £000	Company 2009 £000
Bank loans (note 21)	11 000	11 000	11 000	11 000
Claims in respect of clinical incidents (note 24)	446	3 223		
Employment benefit liabilities (note 24)	2,587	7 209	-	
Property provisions (note 24)	2,275	2 564	-	
Total non-current liabilities	16,308	23 996	11,000	11 000

21 Net borrowings

	Interest rates	Group 2010 £000	Group 2009 £000	Company 2010 £000	Company 2009 £000
Secured					
Bank loans repayable between two and five years	variable	(11 000)	(11 000)	(11 000)	(11 000)
Bank overdrafts repayable within one year	variable (note 23)	(2 924)	(2 862)	-	
Total borrowings		(13 924)	(13 862)	(11 000)	(11 000)
Cash at bank and in hand		119	32	168	1 416
Net borrowings		(13 805)	(13 830)	(10,832)	(9 584)

At 31st December 2010 and 2009 all the bank overdrafts and loans were secured by a fixed and floating charge over Group assets including property plant and equipment investments in subsidiary undertakings and receivables to the values shown on the Group balance sheet

22 Derivative financial instruments

At 1st January 2010 the Group had entered into interest rate derivative contracts to hedge its exposure to changes in interest rates These contracts were classed as derivative financial instruments They were initially recognised at fair value at the date each contract was entered into and were subsequently remeasured to their fair value at each balance sheet date The resultant gain or loss is recognised within the income statement within finance income or expense Hedge accounting has not been applied This practice is considered to be consistent with the requirements of IAS 39 Financial Instruments Recognition and Measurement

Market prices or quotations are not available for the particular derivative contracts that the Group had entered into In the absence of any such market valuations fair values were obtained by taking the settlement values advised at each balance sheet date by the respective counterparty banks

At 1st January 2010 the Group had entered into two such contracts with a combined notional value of £60 000 000 One for a notional sum of £45 000 000 had the effect of restricting LIBOR rates on that level of borrowings to a range between 4 50% and 7 00% whilst the other for a notional sum of £15 000 000 had the effect of restricting LIBOR rates on that level of borrowings to a range between 4 85% and 7 00% Under the terms of both contracts the actual three month LIBOR rate at defined quarterly strike dates was compared with both floor and cap levels No payment was due if actual three month LIBOR was within the range of the respective floor and cap at the strike date If however this actual rate was either below the floor or above the cap a cash payment would then be triggered This cash payment, made three months after each quarterly strike date would be payable by the Group if the actual rate were below the floor or to the Group if the rate were above the cap calculated by applying the interest rate shortfall or excess for one quarter to the notional contracted borrowing

The contract for the notional sum of £45 000 000 expired in November 2010 whilst that for the notional sum of £15 000 000 expired one month earlier in October 2010

Fair value as at 31st December 2010 was accordingly £nil (31st December 2009 £2 245 000)

The movement in the fair value of the liability after accounting for cash payments of £2 353 000 (2009 £1 379 000) amounts to £108 000 (2009 £1 072 000) which has been charged to finance expense in the year

Notes to the financial statements

for the year ended 31st December 2010

23 Financial instruments

The Group has exposure to certain risks arising from its use of financial instruments these being categorised as market risk credit risk liquidity risk and capital risk This note describes the financial instruments used their values the risks to which the Group is exposed and the Group s objectives policies and processes for measuring and managing them Unless otherwise stated references to the Group should be considered to apply to the Company as well Further quantitative information in respect of the financial instruments used and the associated risks is also presented throughout these financial statements and the directors report

There have been no substantive changes in the Group s exposure to financial instrument risks its objectives policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note

The principal financial instruments used by the Group from which financial instrument risk arises are trade receivables cash at bank bank overdrafts trade and other payables floating rate bank loans and (until November 2010) interest rate derivative contracts The Board of directors has overall responsibility for the determination of the Group s risk management objectives and policies the overall objective being to set policies that seek to reduce risk as far as possible without unduly affecting the Group s flexibility and competitiveness

A summary of financial assets and liabilities (which taken together comprise the financial instruments) measured both at carrying value and fair value is as follows

	2010 Carrying value £000	2010 Fair value £000	2009 Carrying value £000	2009 Fair value £000
Group				
Financial assets cash at bank and in hand sterling	119	119	32	32
Financial assets trade receivables	10 979	10 979	13 681	13 681
Financial assets loans and receivables	11,098	11,098	13,713	13,713
Total financial assets	11,098	11,098	13,713	13,713
Short term financial liabilities bank overdrafts	(2 924)	(2 924)	(2 862)	(2 862)
Short term financial liabilities trade payables	(1 899)	(1 899)	(2 399)	(2 399)
Short term financial liabilities other payables	(3 494)	(3 494)	(2 821)	(2 821)
Short term financial liabilities dividend payable	(2 824)	(2 824)		
Long term financial liabilities bank loans	(11 000)	(11 000)	(11 000)	(11 000)
Financial liabilities at amortised cost	(22,141)	(22,141)	(19,082)	(19,082)
Interest rate derivatives			(2 245)	(2 245)
Financial liabilities at fair value through profit and loss		-	(2,245)	(2,245)
Total financial liabilities	(22,141)	(22,141)	(21,327)	(21,327)
Net financial liabilities	(11,043)	(11,043)	(7 614)	(7 614)

	2010 Carrying value £000	2010 Fair value £000	2009 Carrying value £000	2009 Fair value £000
Company				
Financial assets cash at bank and in hand sterling	168	168	1 416	1 416
Financial assets amounts due from Group companies	37 546	37 546	42 802	42 802
Financial assets loans and receivables	37,714	37,714	44,218	44,218
Total financial assets	37,714	37,714	44,218	44,218
Long term financial liabilities bank loans	(11 000)	(11,000)	(11 000)	(11 000)
Financial liabilities at amortised cost	(11,000)	(11,000)	(11,000)	(11,000)
Interest rate derivatives	-		(2 245)	(2 245)
Financial liabilities at fair value through profit and loss	-		(2,245)	(2,245)
Total financial liabilities	(11,000)	(11,000)	(13,245)	(13,245)
Net financial assets/(liabilities)	26 714	26,714	30 973	30 973

Financial assets and liabilities determined by category are accordingly as follows

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Financial assets loans and receivables	11 098	13 713	37 714	44 218
Financial assets total	11 098	13 713	37 714	44 218
Financial liabilities at amortised cost	(22,141)	(19 082)	(11 000)	(11 000)
Financial liabilities at fair value through profit and loss		(2 245)		(2 245)
Net financial (liabilities)/assets	(11,043)	(7 614)	26 714	30 973

Fair value is the amount at which a financial instrument could be exchanged in an arm s length transaction between informed and willing parties other than a forced or liquidation sale and excludes accrued interest

No financial assets held have been pledged as collateral for liabilities or contingent liabilities except as security against bank borrowings (note 21)

Further disclosures on the interest rate derivatives included within financial liabilities at fair value are contained within note 22

Income and expense in relation to financial instruments are disclosed in note 5

Notes to the financial statements
for the year ended 31st December 2010

23 Financial instruments continued

Market risk
Market risk represents the potential for changes in foreign exchange rates and interest rates to affect the Group s profit and the value of its financial instruments In general the Group s objective in market risk management is to minimise its exposures to fluctuations within such variables whilst optimising returns Until November 2010 but not since the Group had entered into interest rate derivative contracts

Interest rate risk
The interest rate profile of the financial liabilities of the Group and Company was

	Group floating rate financial liabilities £000	Company floating rate financial liabilities £000
At 31st December 2010 bank borrowings all sterling	13 924	11 000
At 31st December 2009 bank borrowings all sterling	13 862	11 000

All financial liabilities other than bank borrowings have been excluded from this analysis due to their short term nature

Floating rate interest rates that apply to bank borrowings are linked either to LIBOR (in the case of revolving credit loans) or bank base rates (in the case of overdrafts) Revolving credit loans are rolled over for periods of either one month or three months so that the sterling LIBOR rate applied will in consequence be in this range

The Group's cash and cash equivalents of £119 000 (2009 £32 000) comprise certain bank balances that cannot be offset against bank overdraft balances and cash in hand

The Company's cash and cash equivalents at 31st December 2010 of £168 000 (2009 £1 416 000) all consisted of floating rate financial assets These comprise bank balances the Company did not have any bank overdraft balances at either 31st December 2009 or 2010 to offset against these

The floating rate cash and cash equivalents generally earn interest at rates based on bank base rates and are all recoverable within one year or on demand The cash and cash equivalents on which no interest is received represent cash in hand The effect of variations in interest rates on finance income generated from these financial assets is considered to be generally not material

Interest rate risk sensitivity analysis
In the year ended 31st December 2010 the Group s overall net borrowings have averaged approximately £14 000 000 All of these borrowings bear interest at variable rates The impact of a reduction in the variable interest rate applicable (whether bank base rate or sterling LIBOR) of 1 percentage point would accordingly be to increase Group pre tax profit by approximately £140 000 per annum other things being equal Similarly the impact of an increase of 1 percentage point would be to reduce pre tax profit by approximately £140 000 per annum

The Group s sensitivity to interest rate risk may be summarised as follows

	2010 £000	2009 £000
Sensitivity of bank interest expense		
1% increase in bank base rate or sterling LIBOR	140	170

Credit risk
The directors consider that by the nature of the Group s business and customers its exposure to credit risk is very limited In particular concentrations of credit risk with respect to trade receivables are limited due to the Group s customer base being large and unrelated Accordingly management believe that there is no further credit risk provision required in excess of normal provision for doubtful receivables All receivables are due from customers resident in and trading in the United Kingdom The net of the gross value of trade receivables and any related bad debt provision represents the carrying value which is considered to be equal to fair value

Credit checks are not generally carried out for new customers given their usual status as large public bodies such as Local Authorities Primary Care Trusts Police Authorities and secure institutions Private patients of the Social Care businesses are requested to pay by direct debit wherever possible Considerable resource is expended on the Group s credit control activity so as to optimise the control of trade receivables and in particular to minimise debtor days outstanding overdue receivables and the need for any impairments

The Group records impairment losses on its trade receivables separately from gross receivables In 2010 the allowance reduced from £482 000 at 31st December 2009 to £291 000 at 31st December 2010

An analysis of trade and other receivables is contained in note 18

Liquidity risk
Liquidity risk reflects the risk that the Group will have insufficient resources to meet its financial obligations as they fall due The Group s strategy and policy in respect of managing liquidity risk is to ensure that the Group has sufficient liquid funds at all times to meet all of its actual and potential liabilities as they fall due including anticipated shareholder distributions Sensitivities are applied to all projections of liabilities and liquid resources to ensure that resources will remain sufficient under all reasonable downside projections

Liquidity forecasts are produced on a weekly basis or when drawing on the facilities to ensure that utilisation of current facilities is optimised and also on a monthly and quarterly basis to project compliance with covenant compliance targets agreed with the Group s bankers and to ensure that medium-term liquidity is maintained

The maturity profile of the bank borrowings of the Group and Company including interest payments (not discounted) at 31st December 2010 was as shown in the table below Interest payments have been calculated using LIBOR rates at the year end except where rates had already been contracted

Notes to the financial statements
for the year ended 31st December 2010

23 Financial instruments continued

	Group 2010 £000	Company 2010 £000
Within one year or on demand	3 319	386
Between one and two years	386	386
Between two to five years	11,322	11,322
At 31st December 2010	15 027	12 094

	Group 2009 £000	Company 2009 £000
Within one year or on demand	3 315	360
Between one and two years	360	360
Between two to five years	11 660	11 660
At 31st December 2009	15 335	12 380

The Group had the following undrawn floating rate committed borrowing facilities available in respect of which all conditions precedent had been met at that date

	2010 £000	2009 £000
Expiring		
Between two to five years	11,162	11 138

All the above facilities incur commitment fees at market rates

Financial covenants are incorporated into the terms of the Group s credit facility entered into in 2009 There are three such covenants these relating respectively to cash flow interest cover and leverage

The terms of the cash flow covenant are that the ratio of cash flow (as defined) to finance charges (defined as being bank interest payable) shall be not less than 1 25 on a rolling annual basis measured quarterly At 31st December 2010 the actual ratio was 11 34

The terms of the interest cover covenant are that the ratio of EBITDA (being profit before net finance expense depreciation amortisation share based payments charge and any other exceptional or non-cash charge) to finance charges (defined as being bank interest payable) shall be not less than 5 00 on a rolling annual basis measured quarterly At 31st December 2010 the actual ratio was 24 11

The terms of the leverage covenant are that the ratio of net debt (being total borrowings net of any cash balances) to EBITDA (as defined above) shall be not more than 2 50 on a rolling annual basis measured quarterly At 31st December 2010 the actual ratio was 1 00

Capital risk
In managing its capital the Group s primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and distributions by way of dividends

The directors continue to monitor the balance of capital and debt funding for the Group though no formal target is currently being applied

24 Provisions

	Claims in respect of clinical incidents 2010 £000	Employment benefit liabilities 2010 £000	Property 2010 £000	Total 2010 £000
Group - 2010				
At 1st January 2010	3 273	9 639	3 370	16 282
Contributions paid		(2 696)		(2 696)
Current service cost		91		91
Finance charge		73		73
Actuarial gain		(1 207)		(1 207)
Charge to income statement			820	820
Utilised in the year	(455)		(1 124)	(1 579)
Unwinding of discount			245	245
At 31st December 2010	2 818	5 900	3 311	12 029
Provisions estimated to be settled after more than one year	446	2 587	2 275	5 308
Provisions estimated to be settled within one year	2 372	3 313	1 036	6 721
Total provisions	2 818	5 900	3 311	12 029

	Claims in respect of clinical incidents 2009 £000	Employment benefit liabilities 2009 £000	Property 2009 £000	Total 2009 £000
Group - 2009				
At 1st January 2009	3 350	8 721	4 203	16 274
Contributions paid		(2 730)		(2 730)
Current service cost		154		154
Finance charge		376		376
Actuarial loss		3 118		3 118
Charge to income statement			31	31
Utilised in the year	(77)		(1 123)	(1 200)
Unwinding of discount			259	259
At 31st December 2009	3 273	9 639	3 370	16 282
Provisions estimated to be settled after more than one year	3 223	7,209	2 564	12 996
Provisions estimated to be settled within one year	50	2 430	806	3 286
Total provisions	3 273	9 639	3 370	16 282

The Company carried no provisions at either 31st December 2010 or 31st December 2009

24 Provisions continued

Employment benefit liabilities
The actuarial deficits on the Group s two defined benefit pension schemes total £5 900 000 (2008 £9 639 000) The assumptions used in calculating the combined deficit and description of the schemes and their assets and liabilities generally are further described in note 31

Property
The Group has a number of properties that are either vacant or sublet at a discount

The Group property provision of £3 311 000 (2009 £3 370 000) comprises £1 584 000 (2009 £1 418 000) in respect of lease contracts for such properties no longer occupied by the Group £707 000 (2009 £911 000) in respect of associated lease dilapidations and £1 020 000 (2009 £1 041 000) in respect of lease dilapidation obligations relating to properties that continue to be occupied Dilapidations payments are assumed to occur at the end of each relevant lease

Provision has been made for onerous lease costs taking into account estimates of the length of time properties will be vacant (net of any potential sub-lease income where this can be estimated with reasonable certainty) together with any dilapidations costs and other costs associated with the termination or disposal of leases In determining the provision for vacant properties the cash flows have been discounted using the Group's weighted average cost of capital The estimates used in determining the appropriate level of provision represent management's best view of likely market conditions after taking external advice

Actual activity may nonetheless differ from these estimates due to the effect of future changes in the property market or subsequent business decisions These differences may have a material impact on the provisions established for these matters

Clinical incidents
By the nature of the operations carried out by the Primary Care business segment the Group from time to time receives notification of clinical incidents which could conceivably lead to claims for damages being made against the Group on the grounds of negligence or other reasons In the majority of cases such incidents having been notified do not in fact lead to a claim being made Even if claims are made they may be laid against parties other than the Group In any event even if claims are ultimately laid against the Group they will generally be covered by the Group s insurers subject only to relatively minor excesses Nonetheless it is possible that in certain circumstances the Group could face a material liability when presented with such claims Time lags between an original incident and a claim being submitted could typically be long so at any point in time the likelihood of the Group facing such a liability may be difficult to assess

At 31st December 2009 and 31st December 2010 there were two such claims outstanding where in the opinion of directors it was more likely than not that a liability would fall on the Group The claims arose from incidents that took place in 2001 and 2004 In one case although the overall liability remained to be determined any liability that does arise would be shared with a third party Assessment of the likely eventual liabilities that may arise from such claims may be difficult for the reasons set out above Nonetheless at 31st December 2009 having taken appropriate external advice the directors concluded that the most likely outcome out of a wide range of possible outcomes was that an eventual liability of £3 273 000 (including future costs) would fall on the Group for the two claims combined A provision was accordingly made for this amount In the year to 31st December 2010 an amount of £455 000 representing professional fees (£30 000) and principal (£425 000) has been utilised against this provision No further charges have been made to the income statement in the year

Subsequent to the year end the case dating from 2001 was settled the final liability falling on the Group being materially the same as had been provided at 31st December 2010

25 Share capital

Authorised	2010 Number	2010 £000	2009 Number	2009 £000
Ordinary shares of 10p each				
At 1st January and 31st December	200,000,000	20 000	200 000 000	20 000

Allotted issued and fully paid	2010 Number	2010 £000	2009 Number	2009 £000
Ordinary shares of 10p each				
At 1st January	112 851 815	11,285	112 844 209	11 284
Issued during the year	89 478	9	7 606	1
At 31st December	112,941,293	11,294	112 851 815	11 285

The ordinary shares in issue are considered by the Company to be capital in nature Neither the Group nor the Company are subject to any externally imposed capital requirements

Subsequent to the year end the Company entered into a Scheme of Arrangement as sanctioned by the Court whereby one share was gifted to Saga Group Limited following which all the remaining shares in issue were cancelled Following a further issue of shares to Saga Group Limited all of the Company's shares in issue are now held by that Company The number of 10 pence ordinary shares in issue at 4th March 2011 is 118 354 853

26 Share premium account and reserves

	Share premium account 2010 £000	Share payment reserve 2010 £000	Other reserves 2010 £000	Retained (losses)/ earnings 2010 £000
Group 2010				
At 1st January 2010	71 440	1 926	864	(10 614)
Share based payments		473		
Issue of shares	31			
Actuarial gains arising in defined benefit pension schemes				1 207
Deferred taxation effects of gains and losses recognised directly in equity				(194)
Loss for the year				(8 400)
Dividends payable to equity shareholders				(6 097)
At 31st December 2010	71 471	2 399	864	(24 098)

At 31st December 2010 goodwill written off in prior years directly against retained (losses)/earnings in respect of subsidiaries still held by the Group was £16 891 000 (31st December 2009 £16 891 000)

Notes to the financial statements

for the year ended 31st December 2010

26 Share premium account and reserves continued

	Share premium account 2010 £000	Share payment reserve 2010 £000	Other reserves £000	Retained earnings £000
Company 2010				
At 1st January 2010	71 440	1 926	25 750	31 844
Share-based payments		473		
Issue of shares	31			
Profit for the year				(805)
Transfer			(25 750)	25 750
Dividends payable to equity shareholders				(6 097)
At 31st December 2010	71 471	2 399		50 692

Other reserves amounting to £25 750 000 have been transferred to retained earnings as in the opinion of the directors this treatment is to be preferred given that all of these other reserves are distributable and in all other respects the same as the reserves classified as retained earnings These reserves comprise foreign exchange acquisition and merger reserves and reserves arising from the cancellation of a share premium account all arising in the period 1989 to 1992

In relation to the impairment charge of £50 000 000 against the carrying value of a subsidiary company that had been accounted for in 2008 the directors have following further analysis concluded that following this charge a transfer of £33 136 000 should be made within retained earnings from non-distributable to distributable reserves This transfer is required because the non-distributable reserve of £33 136 000 was attributable to the carrying value of the Company's investment in the Carewatch business and had arisen as part of a Group restructuring in 2002 The impairment arose from the disposal of the Carewatch business and the consequent exclusion of that business s future cash flows from the value in use calculations As a result £33 136 000 became realised on the disposal

Included within retained earnings of the Company at 31st December 2010 is £43 000 000 (2009 £nil) which is now considered to be non distributable This amount represents dividends received from a subsidiary company that could not be classed as qualifying consideration

Retained earnings of the Company as at 31st December 2010 therefore comprise £7 692 000 that is considered to be distributable (2009 negative £(1 292 000)) and £43 000 000 that is considered to be non distributable (2009 £33 136 000)

During the year the Company received no dividends from its subsidiary company Helenus Limited In the year ended 31st December 2009 it had received total dividends from this company of £80 000 000 of which £37 000 000 formed qualifying consideration

	Share premium account 2009 £000	Share payment reserve 2009 £000	Other reserves 2009 £000	Retained (losses)/ earnings 2009 £000
Group - 2009				
At 1st January 2009	71 439	1 387	864	(12 210)
Share based payments		539		
Issue of shares	1			
Actuarial losses arising in defined benefit pension schemes				(3 118)
Current taxation effects of gains and losses recognised directly in equity				616
Deferred taxation effects of gains and losses recognised directly in equity				247
Profit for the year				6 108
Dividends paid to equity shareholders				(2 257)
At 31st December 2009	71 440	1 926	864	(10 614)

	Share premium account 2009 £000	Share payment reserve 2009 £000	Other reserves £000	Retained (losses)/ earnings £000
Company - 2009				
At 1st January 2009	71 439	1 387	25 750	(16 155)
Share based payments		539		
Issue of shares	1			
Profit for the year				50 256
Dividends paid to equity shareholders				(2 257)
At 31st December 2009	71 440	1 926	25 750	31 844

All categories of reserve disclosed above are considered by both Group and Company to be capital in nature Neither the Group nor the Company are subject to any externally imposed capital requirements

Notes to the financial statements
for the year ended 31st December 2010

27 Note to the cash flow statements

	Group 2010 £000	Group 2009 £000	Company 2010 £000	Company 2009 £000
Reconciliation of (loss)/profit to cash generated from operations				
(Loss)/profit after tax for the year	(8 400)	6 108	(805)	50 256
Adjustments for				
Tax expense	3 343	1 184	-	
Finance income	(31)	(138)	-	
Finance expense	996	2 253	590	1 546
Impairment of investments	16 191		-	28 000
Share based payments	473	539	-	
Amortisation of intangible assets	26	65	-	
Depreciation of property plant and equipment	1 104	1 233	-	
Loss on sale of property plant and equipment	22		-	
Loss on disposal of operations		259	-	
Changes in working capital				
Decrease/(increase) in trade and other receivables	540	(1 039)	4 984	(42 641)
(Decrease)/increase in trade and other payables	(644)	2 142	(138)	(27 950)
Decrease in provisions	(3 364)	(3 744)		
Cash generated from operations	10 256	8 882	4,631	9 211

	Group 2010 £000	Group 2009 £000	Company 2010 £000	Company 2009 £000
Reconciliation of net cash flow to movement in net debt				
Increase/(decrease) in cash and cash equivalents	87	(43)	(1 248)	(600)
Decrease in loans from banks		6 000	-	6 000
Increase in bank overdrafts	(62)	(771)	-	
	25	5 186	(1,248)	5 400
Net debt at the beginning of the year	(13 830)	(19 016)	(9 584)	(14 984)
Net debt at the end of the year	(13 805)	(13 830)	(10 832)	(9 584)

28 Operating lease commitments

The Group has numerous premises operated under leases whose terms conditions and expiry dates vary considerably some of which are no longer occupied by the Group In addition the Group leases items of plant and equipment and in particular has entered into a contract hire agreement to lease motor vehicles

At 31st December 2010 the total future minimum lease payments under non cancellable operating leases were as follows

	Plant and equipment including motor vehicles £000	Land and buildings occupied by Group £000	Land and buildings not occupied by Group £000	Total gross £000
For leases expiring				
within one year	57	510	571	1 138
between two and five years	2 768	2 208	1 315	6 291
beyond five years		4 449	3 827	8,276
	2 825	7 167	5 713	15 705

At 31st December 2009 the total future minimum lease payments under non cancellable operating leases were as follows

	Plant and equipment including motor vehicles £000	Land and buildings occupied by Group £000	Land and buildings not occupied by Group £000	Total net £000
For leases expiring				
within one year	68	219	579	866
between two and five years	2 643	3 412	2 371	8 426
beyond five years		7 623	3,572	11 195
	2 711	11 254	6 522	20 487

Commitments in respect of operating leases for land and buildings not occupied by the Group have been restated to show both gross and net of contracted sub-lease income as required by IAS 17 The net value of total future minimum lease payments under non cancellable operating leases for land and buildings not occupied by the Group is £5 011 000 (2009 £3 725 000)

Notes to the financial statements
for the year ended 31st December 2010

29 Employees

	2010 £000	2009 £000
Employee costs for the Group (including directors)		
Wages and salaries	101 719	100 906
Social Security costs	6 859	6 739
Pension costs	796	884
Share based payments	473	539
	109,847	109 068

	2010 £000	2009 £000
Average number of persons employed (including directors)		
Full time	828	991
Part time	6 905	6 502
	7,733	7 493

	2010 £000	2009 £000
Employee numbers by business segment		
Social Care	6 781	6,538
Primary Care	944	947
Corporate	8	8
	7,733	7 493

The Company had no employees (2009 nil) during the year

30 Compensation of directors and key management

Key management included in this analysis are those individuals classed as Persons discharging managerial responsibilities as defined in the Financial Services and Markets Act 2000 These individuals are if not directors senior executives who have the power to make managerial decisions affecting the future development and business prospects of the Group and Company

	2010 £000	2009 £000
Directors and other key management		
Salaries and short term employee benefits	1 538	1 397
Social Security costs	191	169
Post-employment benefits	149	145
Share-based payments	260	254
	2,138	1 965

	2010 £000	2009 £000
Directors		
Aggregate emoluments	889	588
Employer contributions to money purchase pension schemes	69	42
	958	630

Emoluments of the highest paid director were £401 000 (2009 £343 000)

Employer contributions of £69 000 (2009 £42 000) were made to money purchase schemes on behalf of two (2009 one) directors No directors were members of or benefitted from any defined benefit pension scheme (2009 none)

No director received any payments for compensation for loss of office in the year (2009 none)

No director exercised any share options in the year (2009 none) Options over 202 203 shares (2009 193 187) were granted to directors in the year including 97 447 granted to one person who was not a director at the time of grant but became so later in the year The exercise price of these options granted in the year ended 31st December 2010 was 54 50 pence (2009 25 67 pence) The option grants were made under the rules of the Share Option Plan 2002 In addition conditional awards over 368 898 shares (2009 420 371) were made to directors in the year under the Performance Share Plan including 177 782 granted conditionally to one person who was not a director at the time of grant but became so later in the year There is no cost arising to the individual directors at the time of any future vesting of these awards

31 Employment benefit liabilities

The Group has accounted for pensions in accordance with IAS 19 and the disclosures given below are those required by that standard

Group defined benefit pension schemes
The Group operates two funded pension schemes providing benefits based on final pensionable salary The two schemes are the Nestor Healthcare Group Retirement Benefits Scheme (the Nestor Scheme) and the Healthcall Group Limited Pension Scheme (the Healthcall Scheme) Both schemes are closed to new members The schemes are administered by trustees separately from the affairs of the Group and are contracted out of the additional component of the State Pension Scheme

Neither scheme holds any investment in any financial instrument issued by the Group Neither are any of the schemes property or other assets occupied or used by the Group

There are no informal practices applied that might give rise to any constructive obligations

Notes to the financial statements
for the year ended 31st December 2010

31 Employment benefit liabilities continued

Nestor Scheme
JLT Actuaries and Consultants Limited ("JLTACL") consulting actuaries carried out an actuarial valuation of the Nestor Scheme as at 5th April 2009 On the actuarial basis used as at that date the assessed value of the assets was 60% of the value placed on the liabilities in respect of benefits earned to 5th April 2009 allowing for expected future increases in pensionable earnings to Normal Pension Age treating the scheme as an ongoing entity The funding ratio of 60% represented a shortfall of assets compared with the technical provisions of £10 728 000

The market value of the investments held in the Nestor Scheme as at the valuation date was £16 172 000 In addition there were pensions in payment secured by the purchase of annuities

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of investment return on future net cash flow and the rate of increase in pensionable earnings These rates were set relative to an assumed long term rate of price inflation of 3 2% per annum

The assumed future rate of investment return used to discount projected income and outgoing benefits was a real rate of 1 6% per annum relative to price inflation for pensioners and 3 7% per annum before retirement and 1 6% per annum after retirement for non pensioners Pensionable earnings were assumed to increase on average at a rate of 0 5% per annum ahead of price inflation including promotional increases

The employer's contribution rate currently 12 5% is calculated using the projected unit method The shortfall of assets as at 5th April 2009 of £10 728 000 is being met by a schedule of employer contributions designed to eliminate it by no later than April 2016 As the Nestor Scheme is closed to new members under the projected unit method the employer's contribution rate will increase as the members of that scheme approach retirement

Healthcall Scheme
JLT Actuaries and Consultants Limited (JLTACL") consulting actuaries carried out an actuarial valuation of the Healthcall Scheme as at 1st November 2009 On the actuarial basis used as at that date the assessed value of the assets was 62% of the value placed on the liabilities in respect of benefits earned to 1st November 2009 allowing for expected future increases in pensionable earnings to Normal Pension Age treating the scheme as an ongoing entity The funding ratio of 62% represented a shortfall of assets compared with the technical provisions of £6 543 000

The market value of the investments held in the Healthcall Scheme as at the valuation date was £10 678 000 In addition there were pensions in payment secured by the purchase of annuities

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of investment return on future net cash flow and the rate of increase in pensionable earnings These rates were set relative to an assumed long term rate of price inflation of 3 2% per annum

The assumed future rate of investment return used to discount projected income and outgoing benefits was a real rate of 1 4% per annum relative to price inflation for pensioners and 3 4% per annum before retirement and 1 4% per annum after retirement for non pensioners Pensionable earnings were assumed to increase on average in line with price inflation

The employer's contribution rate currently 33 8% is calculated using the projected unit method The shortfall of assets as at 1st November 2009 of £6 543 000 is being met by a schedule of employer contributions designed to eliminate it by no later than November 2016 As the Healthcall Scheme is closed to new members under the projected unit method the employer's contribution rate will increase as the members of that scheme approach retirement

Other schemes
The Group also operates several defined contribution schemes with varying rates of employer contribution

	2010 £000	2009 £000
Pension charge		
Current service cost of defined benefit schemes	91	154
Group contributions to defined contribution schemes	674	584
	765	738
Net finance charge relating to defined benefit schemes	73	376
Pension charge	838	1 114

The costs of expenses have not been included in the service cost or the pension charge being paid direct by the Group and charged elsewhere to the income statement The cost of the expenses associated with the two schemes in the year was £247 000 (2009 £231 000)

At 31st December 2010 £123 000 employer contributions had yet to be paid to the respective schemes (2009 £97 000)

Valuations
The valuation of the liabilities of the Nestor Scheme used for IAS 19 disclosures has been initially based by JLTACL on the underlying assumptions of the actuarial valuation as at 5th April 2009 updated to be consistent with market data and expectations as at 31st December 2010
The valuation of the liabilities of the Healthcall Scheme used for IAS 19 disclosures has been initially based by JLTACL on the underlying assumptions of the actuarial valuation as at 1st November 2009 updated to be consistent with market data and expectations as at 31st December 2010
Assets of the schemes are stated at their market valuation at 31st December 2010

The accounting policy applied in respect of recognised actuarial gains and losses is to account for them immediately and in full within the statement of comprehensive income

Mortality assumptions
The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity The assumptions are equivalent to expected longevity at age 65 for members in normal health approximately as follows

- pensioners currently aged 65 males 20 9 to 21 8 years females 23 5 to 24 4 years
- non pensioners currently aged 45 males 22 8 to 23 8 years females 25 4 to 26 4 years

Commutation assumptions
An allowance has been made in the assumptions adopted as at both 31st December 2010 and 31st December 2009 for members to commute pensions at retirement It has been assumed that members commute 50% (2009 50%) of their pension on the basis of the commutation rates currently in force

31 Employment benefit liabilities continued

	2010	2009
Financial assumptions used to calculate the schemes liabilities and net service costs for the year		
Valuation method	**Projected unit**	Projected unit
Discount rate	**5.40%**	5 80%
Inflation rate RPI	**3 00%**	3 00%
Inflation rate CPI	**2 50%**	3 00%
Increases to pensions in payment and deferred pensions*	**3 00%**	3 00%
Salary increases	**3 00%**	3 50%

* Different increases assumed for certain elements of pension

	Long-term rate of return expected on 31st December 2010	**Value at 31st December 2010 £000**	Long term rate of return expected on 31st December 2009	Value at 31st December 2009 £000
Assets in the schemes and the expected rates of return				
Equities	**8 20%**	**22 626**	8 20%	19 914
Fixed interest securities	**5.40%**	**13 211**	4 50% to 5 80%	10 838
Other	**4 20% to 5 40%**	**2 883**	5 40%	1 282
Total market value of assets		**38 720**		32 034
Present value of schemes' liabilities		**(44 620)**		(41 673)
Deficit in the schemes pension liabilities		**(5 900)**		(9 639)
Related deferred tax asset (note 17)		**1 593**		2 700
Net pension liability		**(4 307)**		(6 939)

The expected return for each asset class reflects a combination of historical performance analysis the forward looking views of the financial markets (as suggested by the yields available) and the views of investment organisations Consideration is also given to the rate of return expected to be available for reinvestment The overall expected rate of return on assets is derived as the weighted average of the expected returns from each of the main asset classes

	2010 £000	2009 £000
Movement in the deficit in the schemes during the year		
Deficit in the schemes at the beginning of the year	**(9 639)**	(8 721)
Contributions paid	**2 696**	2 730
Current service cost	**(91)**	(154)
Net finance charge	**(73)**	(376)
Actuarial gain/(loss)	**1 207**	(3 118)
Deficit in the schemes at the end of the year	**(5,900)**	(9 639)

	2010 £000	2009 £000
Analysis of amounts charged to operating profit		
Current service cost	**91**	154
Analysis of amounts charged to finance expense		
Interest on pension scheme liabilities	**2 380**	2 327
Expected return on assets in the pension schemes	**(2 307)**	(1 951)
Net charge to finance expense	**73**	376
Total income statement charge before deduction for tax	**164**	530

	2010 £000	2009 £000
Analysis of amounts recognised in the statement of comprehensive income		
Actual return on assets	**5 362**	3 973
Expected return on assets	**(2 307)**	(1 951)
Actuarial gain on assets	**3 055**	2 022
Experience losses arising on the scheme liabilities	**(1 848)**	(5 140)
Actuarial gain/(loss) recognised in the statement of comprehensive income	**1 207**	(3 118)

	2010 £000	2009 £000
Reconciliation of the present value of defined benefit obligation ("DBO")		
Present value of DBO at the beginning of the year	**41 673**	35 166
Current service cost	**91**	154
Interest cost	**2 380**	2 327
Employee contributions	**36**	46
Actuarial loss	**1 848**	5 140
Actual benefit payments	**(1 408)**	(1 160)
Present value of DBO at the end of the year	**44 620**	41 673

31 Employment benefit liabilities continued

	2010 £000	2009 £000
Reconciliation of the fair value of assets		
Fair value of assets at the beginning of the year	32 034	26 445
Expected return on assets	2 307	1 951
Actuarial gain	3 055	2 022
Group contributions	2 696	2 730
Employee contributions	36	46
Actual benefit payments	(1 408)	(1 160)
Fair value of assets at the end of the year	38,720	32 034

	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
History of experience adjustments					
Present value of defined benefit obligations	(44 620)	(41 673)	(35 166)	(41 110)	(44 982)
Fair value of scheme assets	38 720	32 034	26 445	34 738	32 992
Deficit in the schemes at the end of the year	(5,900)	(9,639)	(8,721)	(6,372)	(11,990)

	2010	2009	2008	2007	2006
Experience (losses)/gains on scheme liabilities					
Amount (£'000)	(1 125)	278	7 690	4,923	2 978
Percentage of present value of scheme liabilities	(2.5%)	0 7%	21 9%	12 0%	6 6%
Experience gains/(losses) on scheme assets					
Amount (£'000)	3 055	2 022	(13 473)	(1 656)	424
Percentage of present value of scheme assets	7 9%	6 3%	(50 9%)	(4 8%)	1 3%

The cumulative amount of actuarial losses net of gains recognised in the statement of comprehensive income since adoption of IFRS is £2 229 000 (2009 £3 436 000)

32 Share-based payments

Fair values have been calculated and charged to operating profit for all share based payments These consist of grants of shares and share options under various schemes to directors key managers and other employees Assumptions used and results of the fair value calculations are set out below

	Exercise price pence	Outstanding awards 01 01 09	Outstanding awards 31 12 09	Outstanding awards 31 12 10	Vesting periods
Savings Related Share Option Scheme 2003 awards	147 63	890		-	3 to 5 years
Savings Related Share Option Scheme 2005 awards	113 84	12 377	6 386	-	3 to 5 years
Savings Related Share Option Scheme 2007 awards	140 04	107 276	70 649	40 929	3 to 5 years
Savings Related Share Option Scheme 2008 awards	41 40	728 531	240 120	215 181	3 to 5 years
Savings Related Share Option Scheme 2009 awards	19 72		1 548 691	1 423 422	3 to 5 years
Savings Related Share Option Scheme 2010 awards	43 60			647 054	3 to 5 years
Share Option Plan 2002 2003 awards	256 98 and 282 82	103 997	76 326	-	3 years
Share Option Plan 2002 2009 awards	25 67		777 883	746 396	3 years
Share Option Plan 2002 2010 awards	54 50 and 78 94			637 252	3 years
Performance Share Plan 2006 award		910 245		-	3 years
Performance Share Plan 2007 award		542 380	542 380	-	3 years
Performance Share Plan 2008 awards		1 352 312	1,352,312	1,206 480	3 years
Performance Share Plan 2009 award			1 692 668	1 658 411	3 years
Performance Share Plan 2010 awards				1 162 118	3 years
		3 758 008	6 307 615	7,737,245	

Assumptions

The share price used in the calculation of fair value has in each case been the share price on the date of grant

SAYE awards must be exercised within six months of vesting Assumed life terms have accordingly been set at either 3 25 years or 5 25 years for these awards Share Option Plan 2002 awards may be exercised within three to ten years from the date of award Exercise of these options is assumed to be spread through this period Fixed three year terms have been assumed for the Performance Share Plan ("PSP") awards

The expected volatility is based on historical volatility over periods which correspond to the forward life assumptions for each category of award being 3 25 to 5 25 years for SAYE awards six years effective average for Share Option Plan 2002 awards and three years for PSP awards Two periods of exceptional volatility have been excluded with additional historical data substituted in their place

The risk free rate of interest assumed is the rate of interest obtainable from government securities over the same expected terms as have been used for the volatility calculations

The dividend yield assumed has been calculated using publicly available information at the respective grant dates being the historical dividend yield

All PSP awards are subject to a total shareholder return ("TSR") vesting condition as are the awards made in April 2009 (but not previously or since) under the Share Option Plan 2002 This condition has been allowed for in the calculations of fair value

Lapsing rates of 10% per annum have been assumed for SAYE awards 7 5% per annum for share option awards and 0% for PSP awards

Results of calculations of fair value

The fair value of share based transactions has been calculated for the Company by an independent third party advisor Hewitt New Bridge Street Fair values of awards made under the Share Option Plan 2002 and the PSP have been calculated using a stochastic simulation modelling technique Fair values of SAYE awards have been calculated using a Black Scholes option pricing model

Notes to the financial statements
for the year ended 31st December 2010

32 Share-based payments continued

Results of calculations of fair value continued
The combined charge so calculated for 2010 is £473 000 (2009 £539 000) The elements of this charge analysed by share-based transaction are as follows

	Fair value of one award £	Total fair value charge 2010 £000	Total fair value charge 2009 £000
Savings Related Share Option Scheme 2005 awards	0 69 and 0 73	2	4
Savings Related Share Option Scheme 2007 awards	0 91 and 1 05	24	50
Savings Related Share Option Scheme 2008 awards	0 20 and 0 21	14	19
Savings Related Share Option Scheme 2009 awards	0 13 and 0 13	35	89
Savings Related Share Option Scheme 2010 awards	0 24 and 0 24	33	
Performance Share Plan 2006 award	0 84		46
Performance Share Plan 2007 award	1 07	17	124
Performance Share Plan 2008 awards	0 39 and 0 26	129	155
Performance Share Plan 2009 award	0 22	61	42
Performance Share Plan 2010 awards	0 43 and 0 72	125	
Share Option Plan 2002 2009 award	0 11	14	10
Share Option Plan 2002 2010 awards	0 25 and 0 43	19	
Total charge		473	539

Subsequent to the year end all of the PSP awards and the Share Option Plan 2002 awards that had not previously lapsed vested following the acquisition of the Company by Saga Group Limited effective 1st February 2011 A charge of £757 000 has been accounted for in 2011 representing the writeoff of the remaining fair value of these awards

33 Share option schemes

The following table sets out options in issue under the various Company schemes at the beginning and end of the year and movements during the year Share options in issue expire after a certain time and exercise dates vary Exercise rights are subject to the rules of the schemes and share options in issue are not normally exercisable until the expiry of a period of at least three years In addition achievement of performance targets is normally required in all schemes except the SAYE Scheme

89 478 options (2009 7 606) were exercised during the year at an average exercise price of 44 35p (2009 19 72p) The weighted average share price for share options exercised during 2010 was 107 82p (2009 39 00p)

The number of options that had vested and were exercisable at 31st December 2010 was 54 527 (2009 163 487) The average exercise price of these vested and exercisable options was 241 75p at 31st December 2010 (2009 322 38p)

The average exercise price for grants made in the year to 31st December 2010 was 49 36p (2009 21 60p)

The average exercise price of grants that lapsed in the year to 31st December 2010 was 141 34p (2009 112 20p)

The options outstanding at 31st December 2010 had a weighted average remaining contractual life of 4 4 years (2009 4 3 years)

Movements in the year to 31st December 2010 were as follows

Date of issue	Adjusted option price pence	In issue 1st Jan 2010	Granted in the year	Exercised in the year	Lapsed in the year	In issue 31st Dec 2010
Company Share Option Plan 1996						
May 2000	399 33	24 078			(24 078)	
March 2001	509 74	4 104				4 104
		28,182			(24,078)	4,104
Employee Share Option Scheme 1996						
May 2000	399 33	19 028			(19 028)	
March 2001	509 74	13 741			(2 844)	10 897
		32,769			(21,872)	10,897
Share Option Plan 2002						
July 2002	251 35	26 210			(26 210)	
June 2003	256 98	68 876			(68 876)	
November 2003	282 82	7 450			(7 450)	
April 2009	25 67	777 883		(31 485)		746 398
April 2010	54 50		673 981	(57 993)		615 988
August 2010	78 94		21 264			21 264
		880,419	695,245	(89,478)	(102,536)	1,383,650
Savings Related Share Option Scheme						
April 2005	113 84	6,386			(6 386)	
May 2007	140 04	70 849			(29 920)	40 929
June 2008	41 40	240 120			(24 939)	215 181
April 2009	19 72	1 548 691			(125 269)	1 423 422
April 2010	43 60		709 776		(62 722)	647 054
		1,866,046	709,776		(249,236)	2,326,586
Total		2 807 416	1 405 021	(89 478)	(397 722)	3 725 237

Notes to the financial statements
for the year ended 31st December 2010

33 Share option schemes continued

Movements in the year to 31st December 2009 were as follows

Date of issue	Adjusted option price pence	In issue 1st Jan 2009	Granted in the year	Exercised in the year	Lapsed in the year	In issue 31st Dec 2009
Company Share Option Plan 1996						
April 1999	382 89	5 410			(5 410)	
October 1999	560 48	8 798			(8 798)	
May 2000	399 33	42 926			(18 848)	24 078
March 2001	509 74	8 910			(4 806)	4 104
October 2001	479 20	6 260			(6 260)	
		72,304			(44,122)	28,182
Employee Share Option Scheme 1996						
April 1999	382 89	8 818			(8 818)	
May 2000	399 33	45 077			(26 049)	19 028
March 2001	509 74	26,391			(12 650)	13 741
October 2001	479 20	4 487			(4 487)	
		84,773			(52,004)	32,769
Share Option Plan 2002						
July 2002	251 35	90 711			(64 501)	26 210
June 2003	256 98	68 876				68 876
November 2003	282 82	35 121			(27 671)	7 450
April 2009	25 67		777 883			777 883
		194,708	777,883		(92,172)	880,419
Savings Related Share Option Scheme						
April 2003	147 63	890	-		(890)	-
April 2005	113 84	12 377			(5 991)	6 386
May 2007	140 04	107 276			(36 427)	70 849
June 2008	41 40	728 531			(488 411)	240 120
April 2009	19 72		1 683 246	(7 606)	(126 949)	1 548 691
		849,074	1,683,246	(7,606)	(658,668)	1,866,046
Total		1 200 859	2 461 129	(7 606)	(846 966)	2 807 416

34 Share awards

Awards have been made to directors and certain senior managers in all years from 2006 to 2010 inclusive under the Performance Share Plan the rules of which were adopted in April 2006

In 2007 an adjustment was made to the number of shares that had been potentially awarded in April 2006 This upward adjustment of 6 4274% was made to represent the calculated bonus element of the rights issue that had been made in March 2007 The share price shown in the table below relating to the potential award made in April 2006 has similarly been adjusted downwards by the same percentage

Movements in the year to 31st December 2010 were as follows

Date of award	Share price at time of award pence	In issue 1st Jan 2010	Granted in the year	Vested in the year	Lapsed in the year	In issue 31st Dec 2010
March 2007	159 85	542 380			(542 380)	
May 2008	52 00	1 025 854			(145 832)	880 022
September 2008	35 15	326 458				326 458
April 2009	25 67	1 692 668			(34 257)	1 658 411
April 2010	54 50		1 229 594		(106 212)	1 123 382
August 2010	78 94		38 736			38 736
Total		3,587,360	1,268,330		(828,681)	4,027,009

Movements in the year to 31st December 2009 were as follows

Date of award	Share price at time of award pence	In issue 1st Jan 2009	Granted in the year	Vested in the year	Lapsed in the year	In issue 31st Dec 2009
April 2006	120 27	910 246			(910 246)	
March 2007	159 85	542 380				542 380
May 2008	52 00	1 025 854				1 025 854
September 2008	35 15	326 458				326 458
April 2009	25 67		1 692 668	-		1 692 668
Total		2,804,938	1,692,668		(910,246)	3,587,360

Subsequent to the year end all of the 4 027 009 outstanding PSP awards vested following the acquisition of the Company by Saga Group Limited effective 1st February 2011

35 Post-balance sheet event - change of ownership

On 6th December 2010 the directors of the Company announced that they had reached agreement with the board of Saga Group Limited ("Saga") a subsidiary of Acromas Holdings Limited on the terms of a recommended cash acquisition by Saga of the entire issued and to be issued ordinary share capital of the Company Under the terms of the acquisition shareholders of the Company would receive 110 pence in cash for each share

Following approval by the Company's shareholders at a Court meeting on 4th January 2011 and also at a further general meeting held later on the same day the acquisition was completed via a Scheme of Arrangement under Part 26 of the Companies Act 2006 which became effective on 1st February 2011 On 3rd February 2011 the Company's ordinary shares were delisted from the London Stock Exchange and it is expected that the Company will shortly be re registered as a private limited company

36 Ultimate parent undertaking

Throughout the years ending 31st December 2009 and 2010 the Company was publicly held and was the ultimate parent of the Group and all Group companies

Subsequent to the year end on 1st February 2011 the entire issued share capital of the Company was acquired by Saga Group Limited and that company has from that date been the immediate parent company of Nestor Healthcare Group plc Saga Group Limited is incorporated in Great Britain and registered in England and Wales Also since that date the ultimate parent undertaking has been Acromas Holdings Limited which is also incorporated in Great Britain and registered in England and Wales and whose registered office is Enbrook Park Sandgate Folkestone Kent CT20 3SE

37 Ultimate controlling party

Subsequent to the acquisition of the Company by Saga Group Limited on 1st February 2011 the directors consider the ultimate controlling party to be funds advised by Charterhouse General Partners CVC Capital Partners and Permira Advisers acting in concert